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

FORM 10-Q

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

For the quarterly period ended December 26, 2010

OR

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

For the transition period from _____ to_____

Commission File Number: 1-10542

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

New York	**11-2165495**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
P.O. Box 19109 - 7201 West Friendly Avenue Greensboro, NC	**27419**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: **(336) 294-4410**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller Reporting Company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The number of shares outstanding of the issuer's common stock, par value $.10 per share, as of February 1, 2011 was 20,066,765.

UNIFI, INC.
Form 10-Q for the Quarterly Period Ended December 26, 2010

Table of Contents

		Page
	Part I. Financial Information	
Item 1.	Financial Statements: Condensed Consolidated Balance Sheets as of December 26, 2010 and June 27, 2010	3
	Condensed Consolidated Statements of Operations for the Quarters and Six-Months Ended December 26, 2010 and December 27, 2009	4
	Condensed Consolidated Statements of Cash Flows for the Six-Months Ended December 26, 2010 and December 27, 2009	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	51
Item 4.	Controls and Procedures	53
	Part II. Other Information	
Item 1.	Legal Proceedings	53
Item 1A.	Risk Factors	53
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	54
Item 3.	Defaults Upon Senior Securities	54
Item 4.	[Removed and Reserved.]	54
Item 5.	Other Information	54
Item 6.	Exhibits	54

Part I. Financial Information
Item 1. Financial Statements

UNIFI, INC.
Condensed Consolidated Balance Sheets
(Amounts in thousands)

	December 26, 2010 (Unaudited)	June 27, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,185	$ 42,691
Receivables, net	82,015	91,243
Inventories	123,054	111,007
Deferred income taxes	1,771	1,623
Other current assets	5,943	6,119
Total current assets	245,968	252,683
Property, plant and equipment	763,965	747,857
Less accumulated depreciation	(609,509)	(596,358)
	154,456	151,499
Intangible assets, net	12,857	14,135
Investments in unconsolidated affiliates	91,873	73,543
Other non-current assets	9,644	12,605
Total assets	$ 514,798	$ 504,465
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 39,779	$ 40,662
Accrued expenses	14,908	21,725
Income taxes payable	1,562	505
Current portion of notes payable	—	15,000
Current maturities of long-term debt and other liabilities	743	327
Total current liabilities	56,992	78,219
Notes payable, less current portion	163,722	163,722
Long-term debt and other liabilities	2,878	2,531
Deferred income taxes	362	97
Commitments and contingencies		
Shareholders' equity:		
Common stock	2,007	2,006
Capital in excess of par value	32,027	31,579
Retained earnings	231,803	216,183
Accumulated other comprehensive income	25,007	10,128
	290,844	259,896
Total liabilities and shareholders' equity	$ 514,798	$ 504,465

See accompanying notes to condensed consolidated financial statements.

UNIFI, INC.
Condensed Consolidated Statements of Operations
(Unaudited) (Amounts in thousands, except per share data)

	For the Quarters Ended		For the Six-Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
Summary of Operations:				
Net sales	$ 160,802	$ 142,255	$ 334,822	$ 285,106
Cost of sales	141,721	124,919	294,578	248,364
Restructuring charges	1,183	—	1,546	—
Write down of long-lived assets	—	—	—	100
Selling, general and administrative expenses	10,752	12,152	21,879	23,316
Provision (benefit) for bad debts	86	(564)	45	12
Other operating expense (income), net	16	(109)	259	(196)
Non-operating (income) expense:				
Interest income	(668)	(834)	(1,411)	(1,580)
Interest expense	5,062	5,223	10,331	10,715
Other non-operating expense	450	—	450	—
Loss (gain) on extinguishment of debt	—	—	1,144	(54)
Equity in earnings of unconsolidated affiliates	(5,039)	(1,609)	(13,990)	(3,672)
Income from operations before income taxes	7,239	3,077	19,991	8,101
Provision for income taxes	1,854	1,124	4,371	3,659
Net income	$ 5,385	$ 1,953	$ 15,620	$ 4,442
Income per common share:				
Basic	$ .27	$ .10	$ .78	$ .22
Diluted	$ .26	$ .09	$ .76	$ .22
Weighted average outstanding shares of common stock [(a)]:				
Basic	20,059	20,499	20,058	20,592
Diluted	20,467	20,595	20,426	20,640

(a) All outstanding share amounts and computations using such amounts have been retroactively adjusted to reflect the November 3, 2010 1-for-3 reverse stock split.

See accompanying notes to condensed consolidated financial statements.

UNIFI, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited) (Amounts in thousands)

	For the Six-Months Ended	
	December 26, 2010	December 27, 2009
Cash and cash equivalents at beginning of year	$ 42,691	$ 42,659
Operating activities:		
Net income	15,620	4,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings of unconsolidated affiliates, net of distributions	(11,458)	(2,062)
Depreciation	11,688	11,563
Amortization	1,778	2,334
Stock-based compensation expense	383	1,273
Deferred compensation expense	354	343
Loss (gain) on asset sales	53	(57)
Loss (gain) on extinguishment of debt	1,144	(54)
Write down of long-lived assets	—	100
Deferred income tax	234	(19)
Provision for bad debts	45	12
Other	(20)	301
Change in assets and liabilities, excluding effects of foreign currency adjustments	(5,300)	565
Net cash provided by operating activities	14,521	18,741
Investing activities:		
Capital expenditures	(13,324)	(4,965)
Investment in joint ventures	143	(550)
Change in restricted cash	—	4,158
Proceeds from sale of capital assets	185	1,358
Proceeds from split dollar life insurance surrenders	3,241	—
Other	—	(79)
Net cash used in investing activities	(9,755)	(78)
Financing activities:		
Payments of notes payable	(15,863)	—
Payments of other long-term debt	(77,225)	(4,594)
Borrowings of other long-term debt	77,225	—
Proceeds from stock option exercises	68	—
Purchase and retirement of Company stock	(1)	(4,995)
Debt refinancing fees	(825)	—
Net cash used in financing activities	(16,621)	(9,589)
Effect of exchange rate changes on cash and cash equivalents	2,349	2,709
Net (decrease) increase in cash and cash equivalents	(9,506)	11,783
Cash and cash equivalents at end of period	$ 33,185	$ 54,442

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The Condensed Consolidated Balance Sheet of Unifi, Inc. together with its subsidiaries (the “Company”) at June 27, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by United States (“U.S.”) generally accepted accounting principles (“GAAP”) for complete financial statements. Except as noted with respect to the balance sheet at June 27, 2010, this information is unaudited and reflects all adjustments which are, in the opinion of management, necessary to present fairly the financial position at December 26, 2010, and the results of operations and cash flows for the periods ended December 26, 2010 and December 27, 2009. Such adjustments consisted of normal recurring items n ecessary for fair presentation in conformity with U.S. GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates. Interim results are not necessarily indicative of results for a full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 27, 2010, as recast in its Current Report on Form 8-K filed January 7, 2011 to reflect the reverse stock split of the Company’s Common Stock at a reverse stock split ratio of 1-for-3, which became effective November 3, 2010. All share and per share computations have been retroactively adjust ed for all periods presented to reflect the decrease in shares as a result of the reverse stock split. Certain prior period amounts have been reclassified to conform to current year presentation.

The significant accounting policies followed by the Company are presented on pages 67 to 73 of the Company’s Annual Report on Form 10-K for the fiscal year ended June 27, 2010, as recast as discussed above.

2. Inventories

Inventories are comprised of the following (amounts in thousands):

	December 26, 2010	June 27, 2010
Raw materials and supplies	$ 56,236	$ 51,255
Work in process	4,325	6,726
Finished goods	62,493	53,026
	$ 123,054	$ 111,007

3. Other Current Assets

Other current assets are comprised of the following (amounts in thousands):

	December 26, 2010	June 27, 2010
Prepaid expenses:		
Insurance	$ 960	$ 823
Value added tax	2,105	2,281
Information technology services	123	222
Other	535	360
Deposits	2,220	2,433
	$ 5,943	$ 6,119

4. Intangible Assets, Net

Intangible assets subject to amortization consist of a customer list of $22.0 million and non-compete agreement of $4.0 million which were entered into 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. The non-compete agreements are being amortized using the straight-line method over ten years, which is equal to the term of the agreement and its extensions. There are no residual values related to these intangible assets. Accumulated amortization at December 26, 2010 and June 27, 2010 for these intangible assets was $13.1 million and $11.9 million, respectively. These intangible assets re late to the polyester segment.

The following table represents the expected intangible asset amortization for the next five fiscal years (amounts in thousands):

	Aggregate Amortization Expenses				
	2012	2013	2014	2015	2016
Customer list	$ 2,022	$ 1,837	$ 1,481	$ 1,215	$ 969
Non-compete agreements	317	317	317	317	317
	$ 2,339	$ 2,154	$ 1,798	$ 1,532	$ 1,286

5. Investments in Unconsolidated Affiliates

The following table represents the Company's investments in unconsolidated affiliates:

Affiliate Name	Date Acquired	Locations	Percent Ownership
Parkdale America, LLC ("PAL")	Jun-97	North Carolina, South Carolina, Virginia, and Georgia	34%
U.N.F. Industries, LLC ("UNF")	Sep-00	Migdal Ha – Emek, Israel	50%
UNF America, LLC ("UNF America")	Oct-09	Ridgeway, Virginia	50%
Repreve Renewables, LLC ("Repreve Renewables")	Apr-10	Soperton, Georgia	40%

Summarized balance sheet information as of December 26, 2010 and June 27, 2010 and summarized income statement information for the quarters and year-to-date periods ended December 26, 2010 and December 27, 2009 of the combined unconsolidated equity affiliates are as follows (amounts in thousands):

	December 26, 2010	June 27, 2010
	(Unaudited)	(Unaudited)
Current assets	$ 281,846	$ 211,220
Non-current assets	163,176	127,081
Current liabilities	78,537	53,458
Non-current liabilities	55,599	27,621
Shareholders' equity and capital accounts	310,886	257,222

	For the Quarters Ended	
	December 26, 2010	December 27, 2009
	(Unaudited)	(Unaudited)
Net sales	$ 222,932	$ 117,766
Gross profit	10,480	9,161
Income from operations	14,565	4,927
Net income	13,890	3,914

	For the Six-Months Ended	
	December 26, 2010	December 27, 2009
	(Unaudited)	(Unaudited)
Net sales	$ 444,309	$ 217,212
Gross profit	20,291	17,358
Income from operations	39,737	10,339
Net income	40,269	11,433

PAL. PAL receives benefits under the Food, Conservation, and Energy Act of 2008 ("2008 U.S. Farm Bill") which extended the existing upland cotton and extra long staple cotton programs (the "Program"), including economic adjustment assistance provisions for ten years. Beginning August 1, 2008, the Program provided 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 attr ibutable to the purpose of manufacturing upland cotton into eligible cotton products in the U.S. The recipients have the marketing year from August 1 to July 31, plus eighteen months to make the capital expenditures. Under the Program, the subsidy payment is received from the U.S. Department of Agriculture ("USDA") the month after the eligible cotton is consumed. However, the economic assistance benefit is not recognized by PAL into operating income until the period when both criteria have been met; i.e. eligible upland cotton has been consumed, and qualifying capital expenditures under the Program have been made.

During the Company's second quarter and year-to-date periods of fiscal year 2011, PAL received $7.2 million and $14.3 million of economic assistance, respectively, and recognized $8.4 million and $27.7 million of economic assistance, respectively, in its operating income in accordance with the provisions of the Program. As a result of the timing of qualified capital expenditures, PAL's deferred revenue relating to the Program decreased from $13.4 million as of June 27, 2010 to nil as of December 26, 2010.

On October 28, 2009, PAL acquired certain real property and machinery and equipment, as well as entered into lease agreements for real property and machinery and equipment, that constitute most of the yarn manufacturing operations of Hanesbrands, Inc. ("HBI"). Concurrent with that transaction, PAL entered into a yarn supply agreement with HBI to supply at least 95% of the yarn used in the manufacturing of HBI's apparel products at any of HBI's locations in North America, Central America, or the Caribbean Basin for a six-year period with an option for HBI to extend for two additional three-year periods. The yarn supply agreement also covers PAL's supply of certain yarns used in HBI's manufacturing in China through December 31, 2011. As a result of the HBI acqui sition and the timing of significantly higher capital expenditures during calendar year 2010, PAL utilized borrowings under its revolving credit facility to fund its operations. On its January 1, 2011 balance sheet, PAL has $29.4 million in cash and $45.0 million of debt on its revolving credit facility included in current assets and non-current liabilities, respectively.

The Company's investment in PAL at December 26, 2010 was $82.7 million and the underlying equity in the net assets of PAL at December 26, 2010 was $100.8 million. The difference between the carrying value of the Company's investment in PAL and the underlying equity in PAL is attributable to initial excess capital contributions by the Company of $53.4 million, the Company's share of the settlement cost of an anti-trust lawsuit against PAL in which the Company did not participate of $2.6 million offset by an impairment charge taken by the Company on its investment in PAL of $74.1 million.

UNF. On September 27, 2000, the Company formed a 50/50 joint venture, UNF, with Nilit Ltd. ("Nilit"), to produce nylon partially oriented yarn ("POY") at Nilit's manufacturing facility in Migdal Ha-Emek, Israel. The Company's investment in UNF at December 26, 2010 was $3.6 million.

UNF America. On October 8, 2009, the Company formed a 50/50 joint venture, UNF America, with Nilit for the purpose of producing nylon POY in Nilit's Ridgeway, Virginia plant. The Company's initial investment in UNF America was $50 thousand dollars. In addition, the Company loaned UNF America $0.5 million for working capital. The loan carried interest at London Interbank Offered Rate ("LIBOR") plus one and one-half percent and both principal and interest would be paid from the future profits of UNF America at such time as deemed appropriate by its members. The loan was treated as an additional investment by the Company for accounting purposes. As of December 26, 2010, UNF America had repaid all of the working capital loan plus interest back to the Company. The Company's investment in UNF America at December 26, 2010 was $1.2 million.

In conjunction with the formation of UNF America, the Company entered into a supply agreement with UNF and UNF America whereby the Company is committed to purchase its requirements, subject to certain exceptions, of first quality nylon POY for texturing (excluding specialty yarns) from UNF or UNF America. Pricing under the contract is negotiated every six months and is based on market rates.

Repreve Renewables. On April 26, 2010, the Company entered into an agreement to form Repreve Renewables, a joint venture in which the Company owns a 40% interest. This joint venture was established for the purpose of acquiring the assets and the expertise related to the business of cultivating, growing, and selling biomass crops, including feedstock for establishing biomass crops that are intended to be used as a fuel or in the production of fuels or energy in the U.S. and the European Union. The Company received its ownership interest in the joint venture for an initial contribution of $4.0 million. As of December 26, 2010, the Company has contributed an additional $0.6 million for its share of working capital and r ecorded $0.2 million for the Company's share of accumulated net losses, resulting in an investment balance of $4.4 million.

6. Other Non-Current Assets

Other non-current assets are comprised of the following (amounts in thousands):

	December 26, 2010	June 27, 2010
Cash surrender value of life insurance of former key employees	$ 374	$ 3,615
Bond issue costs and debt refinancing fees	3,627	3,585
Long-term deposits	5,491	5,281
Other	152	124
	$ 9,644	$ 12,605

Debt related issue costs and refinancing fees have been amortized on the straight-line method over the life of the corresponding debt, which approximates the effective interest method. On June 30, 2010, the Company redeemed $15 million of the Company's 11.5% senior secured notes due May 15, 2014 (the "2014 notes") at a redemption price of 105.75% of the principal amount of the redeemed 2014 notes. This redemption was financed through a combination of internally generated cash and borrowings under the Company's senior secured asset-based revolving credit facility. As a result, the Company recorded a $1.1 million charge for the early extinguishment of debt in the quarter ended September 26, 2010 of which $0.8 million related to the premium paid for the bonds and $0.3 million related to the retirement of related bond issue costs.

On September 9, 2010, the Company and its subsidiary guarantors (as co-borrowers) closed on the First Amendment to the Amended and Restated Credit Agreement with Bank of America, N.A. (the "First Amended Credit Agreement"). As a result, the Company incurred additional debt refinancing fees in the amount of $0.8 million. See "Footnote 3. Long-term Debt and Other Liabilities" included in the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 2010, as recast in its Current Report on Form 8-K filed January 7, 2011, for a detailed discussion of the terms and covenants of the First Amended Credit Agreement.

As of December 26, 2010 and June 27, 2010, accumulated amortization for debt issue costs and refinancing fees was $5.1 million and $4.6 million, respectively.

7. Accrued Expenses

Accrued expenses are comprised of the following (amounts in thousands):

	December 26, 2010	June 27, 2010
Payroll and fringe benefits	$ 9,585	$ 14,127
Severance	—	301
Interest	2,253	2,429
Utilities	1,684	2,539
Retiree reserve	87	165
Property taxes	—	876
Other	1,299	1,288
	$ 14,908	$ 21,725

8. Income Taxes

The Company's income tax provision for the quarter ended December 26, 2010 resulted in tax expense at an effective rate of 25.6% compared to the quarter ended December 27, 2009 which resulted in tax expense at an effective rate of 36.5%. The Company's income tax provision for the year-to-date period ended December 26, 2010 resulted in tax expense at an effective rate of 21.9% compared to the year-to-date period ended December 27, 2009 which resulted in tax expense at an effective rate of 45.2%.

The difference between the Company's income tax expense and the U.S. statutory rate for the quarter and year-to-date period ended December 26, 2010 was primarily due to the utilization of prior losses for which no benefit had been recognized previously, and foreign operations taxed at rates lower than the U.S., partially offset by foreign dividends taxed in the U.S. The differences between the Company's income tax expense and the U.S. statutory rate for the quarter and year-to-date period ended December 27, 2009 was primarily due to losses in the U.S. and other jurisdictions for which no tax benefit could be recognized while operating profit was generated in other taxable jurisdictions.

Deferred income taxes have been provided for the temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. 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 taxable income during the periods in which those temporary differences reverse. Management considers the scheduled reversal of taxable temporary differences, taxable income in carryback periods, projected future taxable income and tax planning strategies in making this assessment. The Company currently has a full valuation allowance against its net deferred tax assets in the U.S. due to negative evidence concerning the realization of those deferred tax assets in recent years. As results of operations improve, the Company continues to evaluate both positive and negative evidence to determine whether and when the valuation allowance, or a portion thereof, should be released. A release of the valuation allowance could have a material effect on earnings in the period of release.

The Company is subject to income tax examinations for U.S. federal income taxes for fiscal years 2004 through 2010, for non-U.S. income taxes for tax years 2001 through 2010, and for state and local income taxes for fiscal years 2001 through 2010.

9. Shareholders' Equity

On October 27, 2010, the shareholders of the Company approved a reverse stock split of the Company's common stock (the "reverse stock split") at a reverse stock split ratio of 1-for-3. The reverse stock split became effective November 3, 2010 pursuant to a Certificate of Amendment to the Company's Restated Certificate of Incorporation filed with the Secretary of State of New York. The Company had 20,059,544 shares of common stock issued and outstanding immediately following the completion of the reverse stock split. The Company is authorized in its Restated Certificate of Incorporation to issue up to a total of 500,000,000 shares of common stock at a $.10 par value per share which was unchanged by the amendment. The re verse stock split did not affect the registration of the common stock under the Securities Exchange Act of 1934, as amended or the listing of the common stock on the New York Stock Exchange under the symbol "UFI", although the post-split shares are considered a new listing with a new CUSIP number. In the Condensed Consolidated Balance Sheets, the line item Shareholders' equity has been retroactively adjusted to reflect the reverse stock split for all periods presented by reducing the line item Common stock and increasing the line item Capital in excess of par value, with no change to Shareholders' equity in the aggregate.

On November 25, 2009, the Company agreed to purchase 628,333 shares (adjusted for the November 2010 reverse stock split) of its common stock at a purchase price of $7.95 per share from Invemed Catalyst Fund, L.P. (based on an approximate 10% discount to the closing price of the common stock on November 24, 2009). The purchase of the shares pursuant to the transaction was not pursuant to the Company's stock repurchase plan. The transaction closed on November 30, 2009 at a total purchase price of $5 million.

10. Income Per Common Share

The following table sets forth the reconciliation of basic and diluted per share computations (amounts in thousands, except per share data). All share and per share computations have been retroactively adjusted for all periods presented to reflect the reverse stock split.

	For the Quarters Ended		For the Six-Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
Determination of shares:				
Weighted average common shares outstanding	20,059	20,499	20,058	20,592
Assumed conversion of dilutive stock options and restricted stock awards	408	96	368	48
Diluted weighted average common shares outstanding	20,467	20,595	20,426	20,640
Income per common share – basic	$ .27	$ .10	$ .78	$ .22
Income per common share – diluted	$ .26	$ .09	$ .76	$ .22

The following table represents the number of stock options to purchase shares of common stock which were not included in the calculation of diluted per share amounts because they were anti-dilutive (amounts in thousands):

	For the Quarters Ended		For the Six-Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
Stock options	221	297	221	801

11. Comprehensive Income

Comprehensive income amounted to $13.6 million and $30.5 million for the second quarter and year-to-date periods of fiscal year 2011, respectively, compared to comprehensive income of $3.8 million and $14.7 million for the second quarter and year-to-date periods of fiscal year 2010. Comprehensive income was comprised of net income of $5.4 million and $15.6 million, positive cumulative translation adjustments of $1.5 million and $8.2 million, and the Company's 34% share of other comprehensive income related to its investment in PAL of $6.7 million for the second quarter and year-to-date periods of fiscal year 2011, respectively. Comparatively, comprehensive income was comprised of net income of $2.0 million and $4.4 million and positive cumulative translation adjustments of $1.8 million and $10.3 mil lion for the second quarter and year-to-date periods of fiscal year 2010, respectively. Other comprehensive income associated with PAL has historically been immaterial to the Company and therefore the Company did not record its share of PAL's other comprehensive income in its balance sheet in previous periods. Due to a significant increase in cotton prices and the large percentage of future cotton purchases that PAL has hedged in order to protect the gross margin of its fixed-price yarn sales, PAL's other comprehensive income has increased considerably.

The Company does not provide income taxes on the impact of currency translations as earnings from foreign subsidiaries are deemed to be permanently invested.

12. Segment Disclosures

The following is the Company's segment information for the quarters ended December 26, 2010 and December 27, 2009 (amounts in thousands):

	Polyester	Nylon	Total
Quarter ended December 26, 2010:			
Net sales to external customers	$ 124,222	$ 36,580	$ 160,802
Depreciation and amortization	5,636	836	6,472
Segment operating profit	4,485	2,661	7,146
Total assets	325,842	83,769	409,611
Quarter ended December 27, 2009:			
Net sales to external customers	$ 104,303	$ 37,952	$ 142,255
Depreciation and amortization	5,750	862	6,612
Segment operating profit	2,924	2,260	5,184
Total assets	322,232	75,462	397,694

The following table provides reconciliations from segment data to consolidated reporting data (amounts in thousands):

	For the Quarters Ended	
	December 26, 2010	December 27, 2009
Depreciation and amortization:		
Depreciation and amortization of specific reportable segment assets	$ 6,472	$ 6,612
Depreciation included in other operating (income) expense, net	5	36
Amortization included in interest expense, net	247	276
Consolidated depreciation and amortization	$ 6,724	$ 6,924
Reconciliation of segment operating income to income from operations before income taxes:		
Reportable segments operating income	$ 7,146	$ 5,184
Provision (benefit) for bad debts	86	(564)
Other operating expense (income), net	16	(109)
Interest expense, net	4,394	4,389
Other non-operating expenses	450	—
Equity in earnings of unconsolidated affiliates	(5,039)	(1,609)
Income from operations before income taxes	$ 7,239	$ 3,077

The following is the Company's segment information for the six-month periods ended December 26, 2010 and December 27, 2009 (amounts in thousands):

	Polyester	Nylon	Total
Six-Months ended December 26, 2010:			
Net sales to external customers	$ 254,078	$ 80,744	$ 334,822
Depreciation and amortization	11,268	1,689	12,957
Segment operating profit	10,236	6,583	16,819
Six-Months ended December 27, 2009:			
Net sales to external customers	$ 208,763	$ 76,343	$ 285,106
Depreciation and amortization	11,518	1,755	13,273
Segment operating profit	7,795	5,531	13,326

The following table provides reconciliations from segment data to consolidated reporting data (amounts in thousands):

	For the Six-Months Ended	
	December 26, 2010	December 27, 2009
Depreciation and amortization:		
Depreciation and amortization of specific reportable segment assets	$ 12,957	$ 13,273
Depreciation included in other operating (income) expense, net	8	71
Amortization included in interest expense, net	501	553
Consolidated depreciation and amortization	$ 13,466	$ 13,897
Reconciliation of segment operating income to income from operations before income taxes:		
Reportable segments operating income	$ 16,819	$ 13,326
Provision for bad debts	45	12
Other operating expense (income), net	259	(196)
Interest expense, net	8,920	9,135
Other non-operating expenses	450	—
Loss (gain) on extinguishment of debt	1,144	(54)
Equity in earnings of unconsolidated affiliates	(13,990)	(3,672)
Income from operations before income taxes	$ 19,991	$ 8,101

For purposes of segment reporting, segment operating profit represents segment net sales less cost of sales, segment restructuring charges, segment impairments of long-lived assets, and allocated selling, general and administrative ("SG&A") expenses. Certain non-segment manufacturing and unallocated SG&A 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.

The primary differences between the segmented financial information of the operating segments, as reported to management and the Company's consolidated reporting relate to the provision for bad debts, net other operating expense (income), net interest expense, other non-operating expense, and equity in earnings of unconsolidated affiliates and related impairments.

Segment operating profit excluded the provision for bad debts of $86 thousand and the benefit for bad debts of $0.6 million for the second quarter of fiscal years 2011 and 2010, respectively, and the provision for bad debts of $45 thousand and $12 thousand for the year-to-date period of fiscal years 2011 and 2010, respectively.

The total assets for the polyester segment increased from $322.2 million at June 27, 2010 to $325.8 million at December 26, 2010 primarily due to increases in property, plant and equipment ("PP&E"), inventory, cash, and deferred taxes of $4.0 million, $4.2 million, $1.6 million, and $0.1 million, respectively. These increases were offset by decreases in accounts receivables, other non-current assets, and other current assets of $4.6 million, $1.0 million, and $0.7 million, respectively. The total assets for the nylon segment increased from $81.1 million at June 27, 2010 to $83.8 million at December 26, 2010 due primarily to increases in inventory and cash of $8.2 million and $0.3 million, respectively. These increases were offset by a decrease in accounts receivable a nd PP&E of $4.6 million and $1.2 million.

13. Stock-Based Compensation

During the first quarter of fiscal year 2010, the Compensation Committee of the Board of Directors ("Board") authorized the issuance of 566,659 stock options from the 2008 Unifi, Inc. Long-Term Incentive Plan ("2008 Long-Term Incentive Plan") to certain key employees and certain members of the Board. The stock options vest ratably over a three year period and have ten year contractual terms. The Company used the Black-Scholes model to estimate the weighted-average grant date fair value of $3.34 per share.

During the second quarter of fiscal year 2011, the Board authorized the issuance of an aggregate of 25,200 restricted stock units ("RSUs") under the 2008 Long-Term Incentive Plan to the Company's non-employee directors. The RSUs are subject to vesting restriction and convey no rights of ownership in shares of Company stock until such RSUs have vested and been distributed to the grantee in the form of Company stock. The RSUs will become fully vested on November 27, 2011, provided the grantee remains in continuous service as a member of the Board from the grant date until the vesting date. The vested RSUs will be converted into an equivalent number of shares of Company common stock and distributed to the grantee following the grantee's termination of services as a member of the Board. The Company estimated the grant-date fair value of the award to be $13.89 per RSU.

The Company incurred $0.2 million and $0.7 million in the second quarter of fiscal years 2011 and 2010 respectively, and $0.4 million and $1.3 million for the year-to-date periods respectively, in stock-based compensation expense which was recorded as SG&A expense with the offset to capital in excess of par value.

During the second quarter of fiscal year 2011, the Company issued 8,888 shares of common stock as a result of the exercise of stock options. There were no stock options exercised during the first quarter of fiscal year 2011 or during the year-to-date period of fiscal year 2010.

14. Other Operating Expense (Income), Net

The following table summarizes the Company's other operating expense (income), net (amounts in thousands):

	For the Quarters Ended		For the Six-Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
Loss (gain) on sale of PP&E	$ 118	$ 37	$ 53	$ (57)
Currency (gains) losses	(54)	(133)	310	(120)
Other, net	(48)	(13)	(104)	(19)
Other operating expense (income), net	$ 16	$ (109)	$ 259	$ (196)

15. Derivatives Financial Instruments and Fair Value Measurements

The Company accounts for derivative contracts and hedging activities at fair value. Changes in the fair value of derivative contracts are recorded in the line item Other operating expense (income), net in the Condensed Consolidated Statements of Operations. 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 f inancial institutions.

Currency forward contracts are used as economic hedges for the exposure for sales in foreign currencies based on specific sales made to customers. Generally, approximately 60% to 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 forward contracts to market at month end and any realized and unrealized gains or losses are recorded as Other operating expense (income). The Company also enters currency forward contracts for committed machinery and inventory purchases. Generally up to 5% of inventory purchases made by the Company's Brazilian subsidiary are covered by forward contracts although 100% of the cost may be covered by individual contracts in certain instan ces. As of December 26, 2010, the latest maturity date for all outstanding sales and purchase foreign currency forward contracts is March 2011.

The Company has adopted the guidance issued by the Financial Accounting Standards Board ("FASB") which established a framework for measuring and disclosing fair value measurements related to financial and non-financial assets. There is a common definition of fair value used and 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 (amounts in thousands):

	December 26, 2010	June 27, 2010
	Level 2	Level 2
Foreign currency purchase contracts:		
Notional amount	$ 829	$ 2,826
Fair value	844	2,873
Net unrealized gain	$ (15)	$ (47)
Foreign currency sales contracts:		
Notional amount	$ 1,015	$ 1,231
Fair value	1,042	1,217
Net unrealized (loss) gain	$ (27)	$ 14

The fair values of the foreign exchange forward contracts at the respective quarter-end dates are based on discounted quarter-end forward currency rates. The total impact of foreign currency related items that are reported on the line item Other operating expense (income), net in the Condensed Consolidated Statements of Operations, including transactions that were hedged and those unrelated to hedging, was a pre-tax gain of $0.1 million for the quarters ended December 26, 2010 and December 27, 2009, respectively. For the year-to-date periods ended December 26, 2010 and December 27, 2009, the total impact of foreign currency related items resulted in a pre-tax loss of $0.3 million and a pre-tax gain of $0.1 million, respectively.

The Company's financial assets include cash and cash equivalents, net receivables, accounts payable, currency forward contracts, and notes payable. The cash and cash equivalents, net receivables, and accounts payable approximate fair value due to their short maturities. The Company calculates the fair value of its 2014 notes based on the traded price of the 2014 notes on the latest trade date prior to its period end. These are considered Level 1 inputs in the fair value hierarchy.

The carrying values and approximate fair values of the Company's financial assets and liabilities excluding the currency forward contracts discussed above as of December 26, 2010 and June 27, 2010 were as follows (amounts in thousands):

	December 26, 2010		June 27, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	$ 33,185	$ 33,185	$ 42,691	$ 42,691
Receivables, net	82,015	82,015	91,243	91,243
Liabilities:				
Accounts payable	39,779	39,779	40,662	40,662
Notes payable	163,722	170,476	178,722	184,084

16. Related Party Transaction

In each of December 2008, 2009, and 2010, the Company and Dillon Yarn Company ("Dillon") extended the polyester services portion of a Sales and Service Agreement, each time for a term of one year. As a result, the Company recorded $0.3 million and $0.4 million of SG&A expense for the second quarter of fiscal years 2011 and 2010, respectively, related to this contract and the related amendments and $0.7 million and $0.9 million for the year-to-date periods, respectively. 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 Compa ny would have been able to negotiate with an independent third party for similar services.

17. Commitments and Contingencies

At the end of fiscal year 2010, the Company had obligations for the purchase of two extrusion lines and for the construction of a recycled polyester chip facility located in Yadkinville, North Carolina. The Company will purchase machinery and equipment for the recycling of post-consumer flake and post-industrial waste fiber and fabrics to be installed in the new facility. As of December 26, 2010, the Company had made deposits of $1.2 million and $2.4 million for the first and second down payments on the extruders. The Company is obligated to make two additional payments upon the completion of the installation of the machinery totaling $0.6 million. The Company received the first extruder (post-industrial waste fiber and fabrics) in December 2010 and expects the extruder to be in production by the end of February 2011. The Company received the second extruder (post consumer flake) in January 2011, with production beginning in March 2011. The Company also contracted for the construction of the new facility in the amount of $1.5 million. The construction of the building was completed in January 2011.

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 DuPont. Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the U.S. Environmental Protection Agency ("EPA") and the North Carolina Department of Environment and Natural Resources ("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 id entified 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 will be transferred to the Company in the future, at which time DuPont must pay the Company for seven ye ars 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.

The Company is aware of certain claims and potential claims against it for the alleged use of non-compliant "Berry Amendment" nylon POY in yarns that the Company sold which may have ultimately been used to manufacture certain U.S. military garments (the "Military Claims"). As of June 27, 2010, the Company recorded an accrual for the Military Claims of which $0.3 million was paid or settled during the quarter ended September 26, 2010.

18. Recent Accounting Pronouncements

The FASB has issued ASU No. 2010-28, "Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts". This ASU reflects the decision reached in EITF Issue No. 10-A. The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the exist ing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company does not expect that this ASU will have a material effect on its financial position or its results of operations.

The FASB has issued ASU 2010-29, "Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations". This ASU reflects the decision reached in EITF Issue No. 10-G. The amendments in this ASU affect any public entity, as defined by Topic 805 Business Combinations, that enters into business combinations that are material on an individual or aggregate basis. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to includ e a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company does not expect this ASU will have a material effect on its financial position or results of operations.

In July 2010, the FASB issued Accounting Standards Update No. 2010-20 "Receivables (Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" to amend the disclosure requirements related to financing receivables. The guidance requires additional disclosures about the nature of an entity's credit risk as it relates to its receivables, how that risk is analyzed for purposes of providing a credit loss provision, and the reasons for changes in the loss provision. These disclosures are intended to provide financial statement users with more transparency related to an entity's credit risk practices and the related allowances for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual repor ting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. Accordingly, the Company adopted the guidance for period-end disclosures effective as of the end of its second quarter of fiscal year 2011 with the guidance for period activity disclosures to be implemented during its third quarter of fiscal year 2011. The adoption of this guidance did not have and is not expected to have a material impact on the Company's financial position or results of operations.

19. Subsequent Events

On December 28, 2010, the Company announced its commencement of a cash tender offer for any and all of its outstanding 2014 notes conditioned on the successful receipt of proceeds of at least $140.0 million from a new debt financing on terms satisfactory to the Company. On January 11, 2011, the Company announced its termination of the cash tender offer due to the condition of the debt capital markets which made the estimated cost savings generated from a new debt financing insufficient to offset the costs of conducting such a transaction. Concurrently, the Company announced that it is calling for redemption on February 16, 2011 an aggregate principal amount of $30 million of the 2014 notes in accordance with the Indenture. Pursuant to the terms of the Indenture, the redemption price for the 201 4 notes will be 105.75% of the principal amount of the redeemed notes, plus accrued and unpaid interest. Following completion of the redemption, the aggregate principal amount of the 2014 notes that will remain outstanding will be $133.7 million.

The Company evaluated all events and material transactions for potential recognition or disclosure through such time as these statements were filed with the SEC and determined there were no other items deemed reportable.

20. Condensed Consolidated Guarantor and Non-Guarantor 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 the 2014 notes and the guarantees, jointly and severally, on a senior secured basis. The non-guarantor subsidiaries presented below represent the foreign subsidiaries which do not guarantee the notes. Each subsidiary guarantor is 100% owned, directly or indirectly, by Unifi, Inc. and all guarantees are full and unconditional.

Supplemental financial information for the Company and its guarantor subsidiaries and non-guarantor subsidiaries of the 2014 notes is presented below.

Balance Sheet Information as of December 26, 2010 (amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 3,022	$ (2,669)	$ 32,832	$ —	$ 33,185
Receivables, net	—	58,539	23,476	—	82,015
Intercompany accounts receivable	446,282	(439,660)	1,607	(8,229)	—
Inventories	—	82,406	40,557	91	123,054
Deferred income taxes	—	—	1,771	—	1,771
Other current assets	78	1,332	4,533	—	5,943
Total current assets	449,382	(300,052)	104,776	(8,138)	245,968
Property, plant and equipment	11,348	642,237	105,446	4,934	763,965
Less accumulated depreciation	(2,328)	(523,372)	(78,099)	(5,710)	(609,509)
	9,020	118,865	27,347	(776)	154,456
Intangible assets, net	—	12,857	—	—	12,857
Investments in unconsolidated affiliates	—	82,698	9,179	(4)	91,873
Investments in consolidated subsidiaries	439,488	—	—	(439,488)	—
Other non-current assets	4,001	3,010	16,876	(14,243)	9,644
	$ 901,891	$ (82,622)	$ 158,178	$ (462,649)	$ 514,798
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$ 504	$ 32,478	$ 6,797	$ —	$ 39,779
Intercompany accounts payable	443,707	(443,150)	7,658	(8,215)	—
Accrued expenses	2,520	9,559	2,829	—	14,908
Income taxes payable	594	(44)	1,012	—	1,562
Current maturities of long-term debt and other liabilities	—	743	—	—	743
Total current liabilities	447,325	(400,414)	18,296	(8,215)	56,992
Notes payable	163,722	—	—	—	163,722
Long-term debt and other liabilities	—	2,878	—	—	2,878
Deferred income taxes	—	—	362	—	362
Shareholders'/ invested equity	290,844	314,914	139,520	(454,434)	290,844
	$ 901,891	$ (82,622)	$ 158,178	$ (462,649)	$ 514,798

Balance Sheet Information as of June 27, 2010 (amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 9,938	$ 1,832	$ 30,921	$ —	$ 42,691
Receivables, net	—	67,979	23,264	—	91,243
Intercompany accounts receivable	221,670	(209,991)	720	(12,399)	—
Inventories	—	69,930	41,077	—	111,007
Deferred income taxes	—	—	1,623	—	1,623
Other current assets	79	1,052	4,988	—	6,119
Total current assets	231,687	(69,198)	102,593	(12,399)	252,683
Property, plant and equipment	11,348	643,930	92,579	—	747,857
Less accumulated depreciation	(2,185)	(523,771)	(70,402)	—	(596,358)
	9,163	120,159	22,177	—	151,499
Intangible assets, net	—	14,135	—	—	14,135
Investments in unconsolidated affiliates	—	65,446	8,097	—	73,543
Investments in consolidated subsidiaries	407,605	—	—	(407,605)	—
Other non-current assets	7,200	2,999	7,446	(5,040)	12,605
	$ 655,655	$ 133,541	$ 140,313	$ (425,044)	$ 504,465
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$ 218	$ 33,158	$ 7,286	$ —	$ 40,662
Intercompany accounts payable	214,087	(213,457)	11,769	(12,399)	—
Accrued expenses	2,732	15,699	3,294	—	21,725
Income taxes payable	—	(44)	549	—	505
Current portion of notes payable	15,000	—	—	—	15,000
Current maturities of long-term debt and other liabilities	—	327	—	—	327
Total current liabilities	232,037	(164,317)	22,898	(12,399)	78,219
Notes payable, less current portion	163,722	—	—	—	163,722
Long-term debt and other liabilities	—	2,531	5,040	(5,040)	2,531
Deferred income taxes	—	—	97	—	97
Shareholders'/ invested equity	259,896	295,327	112,278	(407,605)	259,896
	$ 655,655	$ 133,541	$ 140,313	$ (425,044)	$ 504,465

Statement of Operations Information for the Quarter Ended December 26, 2010 (amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Summary of Operations:					
Net sales	$ —	$ 113,477	$ 47,717	$ (392)	$ 160,802
Cost of sales	—	101,061	41,272	(612)	141,721
Restructuring charges	—	1,183	—	—	1,183
Equity in subsidiaries	(5,675)	—	—	5,675	—
Selling, general and administrative expenses	—	7,947	2,805	—	10,752
Provision (benefit) for bad debts	—	90	(4)	—	86
Other operating (income) expense, net	(5,663)	4,745	10	924	16
Non-operating (income) expenses:					
Interest income	—	(64)	(807)	203	(668)
Interest expense	5,118	17	130	(203)	5,062
Other non-operating expenses	450	—	—	—	450
Equity in earnings of unconsolidated affiliates	—	(4,423)	(601)	(15)	(5,039)
Income (loss) from operations before income taxes	5,770	2,921	4,912	(6,364)	7,239
Provision for income taxes	385	—	1,469	—	1,854
Net income (loss)	$ 5,385	$ 2,921	$ 3,443	$ (6,364)	$ 5,385

Statement of Operations Information for the Quarter Ended December 27, 2009 (amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Summary of Operations:					
Net sales	$ —	$ 105,687	$ 36,573	$ (5)	$ 142,255
Cost of sales	—	95,724	29,262	(67)	124,919
Equity in subsidiaries	(2,218)	—	—	2,218	—
Selling, general and administrative expenses	(6)	9,678	2,485	(5)	12,152
Benefit for bad debts	—	(544)	(20)	—	(564)
Other operating (income) expense, net	(5,663)	5,643	(89)	—	(109)
Non-operating (income) expenses:					
Interest income	45	(139)	(740)	—	(834)
Interest expense	5,509	(295)	9	—	5,223
Equity in (earnings) losses of unconsolidated affiliates	—	(1,724)	(141)	256	(1,609)
Income (loss) from operations before income taxes	2,333	(2,656)	5,807	(2,407)	3,077
Provision for income taxes	380	8	736	—	1,124
Net income (loss)	$ 1,953	$ (2,664)	$ 5,071	$ (2,407)	$ 1,953

Statement of Operations Information for the Six-Months Ended December 26, 2010 (amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Summary of Operations:					
Net sales	$ —	$ 234,697	$ 100,915	$ (790)	$ 334,822
Cost of sales	—	207,768	87,895	(1,085)	294,578
Restructuring charges	—	1,546	—	—	1,546
Equity in subsidiaries	(17,003)	—	—	17,003	—
Selling, general and administrative expenses	—	15,963	5,916	—	21,879
(Benefit) provision for bad debts	—	(202)	247	—	45
Other operating (income) expense, net	(12,067)	9,916	560	1,850	259
Non-operating (income) expenses:					
Interest income	—	(130)	(1,484)	203	(1,411)
Interest expense	10,274	34	226	(203)	10,331
Loss on extinguishment of debt	1,144	—	—	—	1,144
Other non-operating expenses	450	—	—	—	450
Equity in (earnings) losses of unconsolidated affiliates	—	(13,057)	(1,195)	262	(13,990)
Income (loss) from operations before income taxes	17,202	12,859	8,750	(18,820)	19,991
Provision for income taxes	1,582	—	2,789	—	4,371
Net income (loss)	$ 15,620	$ 12,859	$ 5,961	$ (18,820)	$ 15,620

Statement of Operations Information for the Six-Months Ended December 27, 2009 (amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Summary of Operations:					
Net sales	$ —	$ 210,234	$ 74,931	$ (59)	$ 285,106
Cost of sales	—	189,507	58,892	(35)	248,364
Write down of long-lived assets	—	100	—	—	100
Equity in subsidiaries	(4,574)	—	—	4,574	—
Selling, general and administrative expenses	(16)	18,569	4,822	(59)	23,316
(Benefit) provision for bad debts	—	(63)	75	—	12
Other operating (income) expense, net	(11,137)	11,160	(219)	—	(196)
Non-operating (income) expenses:					
Interest income	(17)	(139)	(1,424)	—	(1,580)
Interest expense	10,976	(270)	9	—	10,715
Gain on extinguishment of debt	(54)	—	—	—	(54)
Equity in (earnings) losses of unconsolidated affiliates	—	(4,076)	(318)	722	(3,672)
Income (loss) from operations before income taxes	4,822	(4,554)	13,094	(5,261)	8,101
Provision for income taxes	380	8	3,271	—	3,659
Net income (loss)	$ 4,442	$ (4,562)	$ 9,823	$ (5,261)	$ 4,442

Notes to Condensed Consolidated Financial Statements – (Continued)

Statements of Cash Flows Information for the Six-Months Ended December 26, 2010 (amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by operating activities	$ 6,464	$ 4,031	$ 3,940	$ 86	$ 14,521
Investing activities:					
Capital expenditures	—	(8,538)	(4,786)	—	(13,324)
Investment in joint ventures	—	—	143	—	143
Proceeds from sale of capital assets	—	6	179	—	185
Proceeds from split dollar life insurance surrenders	3,241	—	—	—	3,241
Net cash (used in) provided by investing activities	3,241	(8,532)	(4,464)	—	(9,755)
Financing activities:					
Payments of notes payable	(15,863)	—	—	—	(15,863)
Payments of long-term debt	(77,225)	—	—	—	(77,225)
Borrowings of long-term debt	77,225	—	—	—	77,225
Issuance of stock	68	—	—	—	68
Purchase and retirement of Company stock	(1)	—	—	—	(1)
Debt refinancing fees	(825)	—	—	—	(825)
Net cash used in financing activities	(16,621)	—	—	—	(16,621)
Effect of exchange rate changes on cash and cash equivalents	—	—	2,435	(86)	2,349
Net (decrease) increase in cash and cash equivalents	(6,916)	(4,501)	1,911	—	(9,506)
Cash and cash equivalents at beginning of period	9,938	1,832	30,921	—	42,691
Cash and cash equivalents at end of period	$ 3,022	$ (2,669)	$ 32,832	$ —	$ 33,185

Statements of Cash Flows Information for the Six-Months Ended December 27, 2009 (amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	$ 5,873	$ 331	$ 12,579	$ (42)	$ 18,741
Investing activities:					
Capital expenditures	(12)	(4,036)	(917)	—	(4,965)
Acquisition	—	—	(550)	—	(550)
Change in restricted cash	—	—	4,158	—	4,158
Proceeds from sale of capital assets	—	1,251	107	—	1,358
Other	—	—	(79)	—	(79)
Net cash (used in) provided by investing activities	(12)	(2,785)	2,719	—	(78)
Financing activities:					
Payments of long-term debt	(435)	—	(4,159)	—	(4,594)
Purchase and retirement of Company stock	(4,995)	—	—	—	(4,995)
Net cash used in financing activities	(5,430)	—	(4,159)	—	(9,589)
Effect of exchange rate changes on cash and cash equivalents	—	—	2,667	42	2,709
Net increase (decrease) in cash and cash equivalents	431	(2,454)	13,806	—	11,783
Cash and cash equivalents at beginning of period	11,509	(812)	31,962	—	42,659
Cash and cash equivalents at end of period	$ 11,940	$ (3,266)	$ 45,768	$ —	$ 54,442

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors that have affected the operations and material changes in financial condition of Unifi, Inc. and its subsidiaries (the "Company") during the periods included in the accompanying Condensed Consolidated Financial Statements.

Business Overview

The Company is a leading North American producer and processor of multi-filament polyester and nylon yarns. The Company maintains one of the industry's most comprehensive product offerings and emphasizes quality, style and performance in all of its products. The Company manufactures partially oriented, textured, dyed, twisted and beamed polyester yarns as well as textured nylon and nylon and polyester covered spandex products. The Company adds value to the supply chain through the development and introduction of branded yarns that provide unique eco-friendly, performance, comfort and aesthetic characteristics that enhance demand for its products. In an effort to distinguish its specialty and premier value-added products in the marketplace, the Company has developed an extensive product offering of premier valu e-added ("PVA") yarns, commercialized under several brand names, including Repreve®, Sorbtek®, A.M.Y.®, Mynx® UV, Reflexx®, Augusta® and aio®.

The Company sells its products to other yarn manufacturers, knitters and weavers that produce fabrics for the apparel, hosiery, furnishings, automotive, industrial and other end-use markets and operate in the textile and apparel industry. Over the last decade, global trade flows of textile and apparel markets continued their shift to lower-cost production areas. Supply chains from greater China (including Hong Kong and Macau) have taken share globally, and while much of that share came from the United States ("U.S.") textile producers, recent growth in Central America has offset such share losses from the U.S. Significant investment in the region by established industry players has resulted in increased sales volumes and stability within the combined North America and Central Americ a regional market.

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, El Salvador, and the U.S., which has the Company's largest operations and number of locations. The polyester segment also includes a 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.

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.

Recent Developments and Outlook

On October 27, 2010, the shareholders of the Company approved a reverse stock split of the Company's common stock (the "reverse stock split") at a reverse stock split ratio of 1-for-3. The reverse stock split became effective November 3, 2010 pursuant to a Certificate of Amendment to the Company's Restated Certificate of Incorporation filed with the Secretary of State of New York. The Company had 20,059,544 shares of common stock issued and outstanding immediately following the completion of the reverse stock split. The Company is authorized in its Restated Certificate of Incorporation to issue up to a total of 500,000,000 shares of common stock at a $.10 par value per share which was unchanged by the amendment. The reverse stock split did not affect the registration of the common stock under the Securities Exchange Act of 1934, as amended or the listing of the common stock on the New York Stock Exchange under the symbol "UFI", although the post-split shares are considered a new listing with a new CUSIP number. In the Condensed Consolidated Balance Sheets, the line item Shareholders' equity has been retroactively adjusted to reflect the reverse stock split for all periods presented by reducing the line item Common stock and increasing the line item Capital in excess of par value, with no change to Shareholders' equity in the aggregate. All share and per share computations have been retroactively adjusted for all periods presented to reflect the decrease in shares as a result of this transaction.

On December 28, 2010, the Company announced its commencement of a cash tender offer for any and all of the Company's 11.5% senior secured notes due May 15, 2014 (the "2014 notes") for a total consideration of 106.0% of the principal amount of the 2014 notes validly tendered, conditioned upon the receipt of at least $140.0 million from a new debt financing on terms satisfactory to the Company. Subsequently, on January 11, 2011, the Company announced its termination of the cash tender offer due to the condition of the debt capital markets which made the estimated cost savings generated from a new debt financing insufficient to offset the estimated costs of conducting such a transaction. Concurrently, the Company announced that it was calling for the redemption of $30.0 mill ion of the 2014 notes at a redemption price of 105.75% of the principal amount of the redeemed notes to be effective on February 16, 2011. The Company plans to finance this redemption through a combination of internally generated cash and borrowings under the Company's senior secured asset-based revolving credit facility. The Company plans to utilize its liquidity to continue to redeem its 2014 notes incrementally through a combination of internally generated cash and limited borrowings using its senior secured asset-based revolving credit facility while maintaining a continuous revolver balance. The Company plans to hedge a substantial amount of the interest rate risk on its revolver balance to ensure its interest savings on the 2014 note repurchases. As a result of the utilization of cash on hand to reduce outstanding debt and the lower rate under the revolving credit facility, the Company expects a significant reduction of its annual fixed carrying c ost between the commencement of this debt reduction strategy and the final repayment of the 2014 notes. See "Long-term Debt" included in "Liquidity and Capital Resources" section below for a detailed discussion of the interest rates and covenants related to the Company's revolving credit facility.

In the near term, the Company believes that fiscal year 2011 will represent a critical transition year from a cash flow perspective. In addition to normal capital expenditures, the Company is investing approximately $14.0 million in strategic capital expenditures to improve its cost flexibility and capability to produce PVA products. In addition, the Company expects to invest approximately $11.0 million in new working capital to support (i) the higher sales volumes as retail sales continue to recover; (ii) additional production capacity in El Salvador; and (iii) backward integration into recycled polyester polymer bead ("Chip") which is the feedstock used in its Repreve ® products.

In order to improve long-term performance, the Company will focus on sustaining and continuously improving corporate operations and profitability, and increasing its net sales and earnings in global markets. While the Company continues to explore global growth opportunities and diversify its portfolio, the Company's top priority remains growing and continuously improving its core business. The Company will strive to create additional value through mix enrichment, share gain, process improvement throughout the organization, and expanding the number of customers and programs using its value-added yarns.

Beginning in 2007, the Company initiated a culture of continuous improvement in both the creation of customer value and improvement of production efficiencies throughout all of the Company's operations. Over the past year, the Company expanded its efforts in manufacturing and statistical process control in all of its operations and currently has over fifty active improvement programs, each aimed at providing measurable improvements to cost of operations and investments in working capital. The Company expects to continue these efforts through the next fiscal year. These efforts, coupled with strategic capital expenditures designed to grow the Company's PVA product capabilities, are expected to result in continued improvement of its financial performance over the next several years. This in cludes a capital project related to the backward supply chain integration of the Company's 100% recycled Repreve® product. By being more vertically integrated, the Company expects to improve the availability of recycled raw materials and significantly increase its product capabilities and ability to compete effectively in this growing segment. The Company expects this will also make it an even stronger partner in the development and commercialization of value-added products that meet sustainability demands of today's brands and retailers.

Based on historical experience, the Company faces multiple variables that affect its profitability and revenue, which it needs to manage. These variables include changes to its raw material costs; changes to retail demand for apparel, furnishings and automotive; changes in industry inventory and stocking levels; and changes to trade flows to or from the regions covered by the North American Free Trade Agreement, the U.S.-Dominican Republic-Central America Free Trade Agreement ("CAFTA"), the Caribbean Basin Trade Partnership Act and the Andean Trade Promotion and Drug Eradication Act which are referred to collectively as the "regional free-trade markets."

The Company experienced rising polyester raw material prices stemming from increases in crude oil prices, the return of post-recession demand for all fibers including polyester and the unplanned temporary slowdown in production in paraxlyene and monoethylene glycol plants in Asia. Additionally, cotton prices recently reached historical highs due to weather-related and other supply disruptions, which when combined with robust global demand, particularly in Asia, has created concerns about availability. This has caused an increase in demand for polyester staple as a substitute for cotton resulting in higher polyester ingredient costs.

The Company also experienced an increase in nylon raw materials during the first half of fiscal year 2011. Nylon polymer ingredient costs are expected to increase 15% to 20% during the second half of fiscal year 2011, which has resulted in increases in POY raw material costs for the Company. This increase is attributable to higher demands related to the economic recovery and tighter supply due to unplanned production outages.

During the December 2010 quarter, the Company announced price increases for both polyester and nylon products which are expected to offset the increases in raw material costs once current production moves through the supply chain. While the high cost of raw materials will put pressure on the Company's margins in the March 2011 quarter as the Company passes these cost increases through the supply chain, the Company sees opportunity in the fact that costs of production and transportation in Asia have increased substantially, and the gap in polymer pricing between the U.S. and Asia continues to shrink considerably, nearing par. This narrowing polymer pricing gap, coupled with the significant amount of investmen t in infrastructure and capacity in the CAFTA region should help promote the relocation of global apparel sourcing towards the Americas region.

The competitiveness of the CAFTA region is improving as compared to Asia, which has resulted in increased CAFTA production of apparel using synthetic fibers. According to U.S. Government and textile industry sources, U.S. imports of synthetic apparel from CAFTA increased by approximately 25% in calendar year 2010 as compared to the prior calendar year as retail sales recovered and rising manufacturing and transportation costs in China coupled with the CAFTA region's shorter lead times have made the region an attractive supply chain for U.S brands and retailers. The Company completed the start up of its new manufacturing facility, Unifi Central America, Ltda. DE C.V. ("UCA"), located in El Salvador in December which ha s allowed the Company to maintain market share in the region, while also positioning the Company for additional volume opportunities as global apparel sourcing continues to move to the CAFTA region from Asia.

For changes in retail demand and trade flows, the Company expects a modest but sustained recovery in the U.S. ecomomy, with the potential for slight growth in the U.S. regional free-trade markets, as the CAFTA market continues to increase its share of apparel consumed in the U.S. Although the Company is currently operating at high sales-to-capacity ratios, the Company expects to improve operating margins and participate in growth of the region through mix enrichment. As demand increases, the Company expects to focus on increasing its specialty and value-added product production, at the expense of lower-margin commodity products.

In Brazil and China, the Company expects to profitably grow the contribution of each of these operations by focusing on gaining market share and expanding volumes in its premier value-added products.

Going forward, the Company expects to continue to build upon its success by focusing on sustaining and continuously improving corporate operations and profitability, increasing sales and earnings in global markets, and executing on its strategic growth initiatives to ensure the long-term health of the Company.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles ("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 the critical accounting policy related to the Company's valuation allowance for deferred tax asset s and is an addition to the Company's "Critical Accounting Policies" discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 2010, as recast for the effect of the 1-for-3 reverse stock split on November 3, 2010 in its Current Report on Form 8-K filed January 7, 2011.

Valuation Allowance for Deferred Tax Assets. The Company maintains a valuation allowance against certain of its deferred tax assets as the Company has determined that it is more likely than not that it will not be able to realize these deferred tax assets. The Company's realization of its deferred tax assets is based on several factors that require continued assessment. One of the factors is the existence of future taxable income within a certain time period and is therefore uncertain and judgmental. Other factors include the potential for carryback and carryforward of various tax attributes, the possibility of reasonable tax planning, and the reversal of taxable temporary differences. On a quarterly basis, the Company reviews these factors in determining the likelihood of realizability of its deferred tax assets. The valuation allowance on the Company's net deferred tax assets in certain jurisdictions is reviewed quarterly and will be maintained until sufficient positive evidence exists to support the reversal of the valuation allowance. A release of the valuation allowance could have a material effect on earnings in the period of release.

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;
- gross margin, which is an indicator of product mix and profitability;
- adjusted EBITDA, which the Company defines as net income or loss before income tax expense (benefit), net interest expense, and depreciation and amortization expense, adjusted to exclude equity in earnings and losses of unconsolidated affiliates, write down of long-lived assets, non-cash compensation expense net of distributions, gains or losses on sales or disposals of property, plant and equipment ("PP&E"), currency and derivative gains or losses, gains or losses on extinguishment of debt and other non-operating refinancing costs, restructuring charges, and foreign subsidiary startup costs, as revised from time to time, which the Company believes is a supplemental measure of its operating performance and debt service capacity; 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.

Consolidated net sales for the second quarter of fiscal year 2011 were $160.8 million, an increase of $18.5 million, or 13%, as compared to the same quarter in the prior year. This improvement was driven by increased market share and improving market conditions in substantially all key segments. Sales volumes increased 11.5% in the second quarter of fiscal year 2011 as compared to the second quarter of fiscal year 2010, primarily driven by gains in the Company's domestic business as well as improvements derived from the Company's Brazilian, Chinese and Central American operations. Net sales of the Company's PVA products increased by 36% in the current quarter over the prior year second quarter, with the average selling price per pound decreasing by 1.0% primarily driven by a change in sa les mix. PVA sales volumes improved by 37% when comparing the same periods. These improvements in PVA sales dollars and volumes are a leading factor in the Company's overall improved sales results.

Consolidated gross profit increased $1.7 million to $19.1 million for the second quarter of fiscal year 2011 as compared to the prior year second quarter. This increase in gross profit was primarily attributable to improved conversion (net sales less raw material cost) of $5.3 million offset by increased consolidated manufacturing costs of $3.6 million for the December 2010 fiscal quarter when compared to the December 2009 fiscal quarter. However, consolidated manufacturing costs decreased by 1.1% on a per unit basis due to the increase in sales volumes. Consolidated variable manufacturing costs increased by $1.5 million and consolidated fixed manufacturing costs increased $2.1 million.

The Company's adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("adjusted EBITDA") for the year-to-date period of fiscal year 2011 was $34.1 million, which is an improvement of $5.7 million over the same period of fiscal year 2010, as described in more detail below. The increase in adjusted EBITDA over the prior year period is due in part to improved gross profit in the domestic operations as a result of increased sales volumes, a higher proportion of PVA sales, and increased selling prices, which allowed the Company to regain conversion margin lost as a result of rising raw material prices during the latter half of fiscal year 2010 and cover raw material price increases experienced in the second quarter of fiscal year 2011. The Company's positive results wer e due to a combination of continuous efforts to improve its manufacturing processes and expanding its market share.

Adjusted EBITDA

Adjusted EBITDA is a financial measurement that management uses to facilitate its analysis and understanding of the Company's business operations. Management believes it is useful to investors because it provides a supplemental way to understand the underlying operating performance of the Company. The calculation of adjusted EBITDA is a subjective measure based on management's belief as to which items should be included or excluded, in order to provide the most reasonable view of the underlying operating performance of the business. Adjusted EBITDA is not considered to be in accordance with GAAP and should not be considered a substitute for performance measures calculated in accordance with GAAP.

The following table presents the Company's calculation of adjusted EBITDA beginning with Net income:

	For the Quarters Ended		For the Six-Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(Amounts in thousands)			
Net income	$ 5,385	$ 1,953	$ 15,620	$ 4,442
Interest expense, net	4,394	4,389	8,920	9,135
Depreciation and amortization expense	6,476	6,648	12,965	13,344
Provision for income taxes	1,854	1,124	4,371	3,659
Equity in earnings of unconsolidated affiliates	(5,039)	(1,609)	(13,990)	(3,672)
Non-cash compensation expense, net of distributions	356	846	703	1,616
(Gain) loss on sales or disposals of PP&E	118	37	53	(57)
Currency and derivative losses (gains)	(54)	(133)	310	(120)
Write down of long-lived assets	—	—	—	100
Loss (gain) on extinguishment of debt and other non-operating expense	450	—	1,594	(54)
Restructuring charges	1,183	—	1,546	—
Foreign subsidiary startup costs [a]	575	—	2,038	—
Adjusted EBITDA	$ 15,698	$ 13,255	$ 34,130	$ 28,393

(a) Initial UCA operating expenses incurred during fiscal year 2011 related to pre-operating expenses including the hiring and training of new employees and the costs of operating personnel to initiate the new operations. Start-up expenses also include losses incurred in the period subsequent to when UCA assets became available for use but prior to the achievement of a reasonable level of production.

Joint Ventures and Other Equity Investments

The following table represents the Company's investments in unconsolidated affiliates:

Affiliate Name	Date Acquired	Locations	Percent Ownership
Parkdale America, LLC ("PAL")	Jun-97	North Carolina, South Carolina, Virginia, and Georgia	34%
U.N.F. Industries, LLC ("UNF")	Sep-00	Migdal Ha – Emek, Israel	50%
UNF America, LLC ("UNF America")	Oct-09	Ridgeway, Virginia	50%
Repreve Renewables, LLC ("Repreve Renewables")	Apr-10	Soperton, Georgia	40%

Summarized balance sheet information as of December 26, 2010 and June 27, 2010 and summarized income statement information for the quarter and year-to-date periods ended December 26, 2010 and December 27, 2009 of the combined unconsolidated equity affiliates are as follows (amounts in thousands):

	December 26, 2010 (Unaudited)		
	PAL	Other	Total
Current assets	$ 266,741	$ 15,105	$ 281,846
Non-current assets	157,117	6,059	163,176
Current liabilities	72,327	6,210	78,537
Non-current liabilities	55,099	500	55,599
Shareholders’ equity and capital accounts	296,432	14,454	310,886

	June 27, 2010 (Unaudited)		
	PAL	Other	Total
Current assets	$ 198,958	$ 12,262	$ 211,220
Non-current assets	120,380	6,701	127,081
Current liabilities	48,220	5,238	53,458
Non-current liabilities	25,621	2,000	27,621
Shareholders’ equity and capital accounts	245,497	11,725	257,222

	For the Quarter Ended December 26, 2010 (Unaudited)		
	PAL	Other	Total
Net sales	$ 212,357	$ 10,575	$ 222,932
Gross profit	8,473	2,007	10,480
EAP revenues	8,398	—	8,398
Depreciation and amortization	8,176	341	8,517
Income from operations	13,342	1,223	14,565
Net income	13,011	879	13,890

	For the Quarter Ended December 27, 2009 (Unaudited)		
	PAL	Other	Total
Net sales	$ 112,827	$ 4,939	$ 117,766
Gross profit	8,515	646	9,161
EAP revenues	1,922	—	1.922
Depreciation and amortization	6,189	441	6,630
Income from operations	4,665	262	4,927
Net income	3,632	282	3,914

	For the Six-Months Ended December 26, 2010 (Unaudited)		
	PAL	Other	Total
Net sales	$ 422,158	$ 22,151	$ 444,309
Gross profit	16,276	4,015	20,291
EAP revenues	27,687	—	27,687
Depreciation and amortization	14,699	683	15,382
Income from operations	37,252	2,485	39,737
Net income	38,403	1,866	40,269

	For the Six-Months Ended December 27, 2009		
	(Unaudited)		
	PAL	Other	Total
Net sales	$ 207,697	$ 9,515	$ 217,212
Gross profit	15,986	1,372	17,358
EAP revenues	2,379	—	2,379
Depreciation and amortization	10,741	915	11,656
Income from operations	9,682	657	10,339
Net income	10,796	637	11,433

PAL. PAL receives benefits under the Food, Conservation, and Energy Act of 2008 ("2008 U.S. Farm Bill") which extended the existing upland cotton and extra long staple cotton programs (the "Program"), including economic adjustment assistance provisions for ten years. Beginning August 1, 2008, the Program provided 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 attr ibutable to the purpose of manufacturing upland cotton into eligible cotton products in the U.S. The recipients have the marketing year from August 1 to July 31, plus eighteen months to make the capital expenditures. Under the Program, the subsidy payment is received from the U.S. Department of Agriculture ("USDA") the month after the eligible cotton is consumed. However, the economic assistance benefit is not recognized by PAL into operating income until the period when both criteria have been met; i.e. eligible upland cotton has been consumed, and qualifying capital expenditures under the Program have been made.

During the Company's second quarter and year-to-date periods of fiscal year 2011, PAL received $7.2 million and $14.3 million of economic assistance, respectively, and recognized $8.4 million and $27.7 million of economic assistance, respectively, in its operating income in accordance with the provisions of the Program. As a result of the timing of qualified capital expenditures, PAL's deferred revenue relating to the Program decreased from $13.4 million as of June 27, 2010 to nil as of December 26, 2010.

On October 28, 2009, PAL acquired certain real property and machinery and equipment, as well as entered into lease agreements for real property and machinery and equipment, that constitute most of the yarn manufacturing operations of Hanesbrands, Inc. ("HBI"). Concurrent with that transaction, PAL entered into a yarn supply agreement with HBI to supply at least 95% of the yarn used in the manufacturing of HBI's apparel products at any of HBI's locations in North America, Central America, or the Caribbean Basin for a six-year period with an option for HBI to extend for two additional three-year periods. The yarn supply agreement also covers PAL's supply of certain yarns used in HBI's manufacturing in China through December 31, 2011. As a result of the HBI acqui sition and the timing of significantly higher capital expenditures during calendar year 2010, PAL utilized borrowings under its revolving credit facility to fund its operations. On its January 1, 2011 balance sheet, PAL has $29.4 million in cash and $45.0 million of debt on its revolving credit facility included in current assets and non-current liabilities, respectively.

The Company's investment in PAL at December 26, 2010 was $82.7 million and the underlying equity in the net assets of PAL at December 26, 2010 was $100.8 million. The difference between the carrying value of the Company's investment in PAL and the underlying equity in PAL is attributable to initial excess capital contributions by the Company of $53.4 million, the Company's share of the settlement cost of an anti-trust lawsuit against PAL in which the Company did not participate of $2.6 million offset by an impairment charge taken by the Company on its investment in PAL of $74.1 million.

UNF. On September 27, 2000, the Company formed a 50/50 joint venture, UNF, with Nilit Ltd. ("Nilit"), to produce nylon partially oriented yarn ("POY") at Nilit's manufacturing facility in Migdal Ha-Emek, Israel. The Company's investment in UNF at December 26, 2010 was $3.6 million.

UNF America. On October 8, 2009, the Company formed a 50/50 joint venture, UNF America, with Nilit for the purpose of producing nylon POY in Nilit's Ridgeway, Virginia plant. The Company's initial investment in UNF America was $50 thousand dollars. In addition, the Company loaned UNF America $0.5 million for working capital. The loan carried interest at London Interbank Offered Rate ("LIBOR") plus one and one-half percent and both principal and interest would be paid from the future profits of UNF America at such time as deemed appropriate by its members. The loan was treated as an additional investment by the Company for accounting purposes. As of December 26, 2010, UNF America had repaid all of the working capital loan plus interest back to the Company. The Company's investment in UNF America at December 26, 2010 was $1.2 million.

In conjunction with the formation of UNF America, the Company entered into a supply agreement with UNF and UNF America whereby the Company is committed to purchase its requirements, subject to certain exceptions, of first quality nylon POY for texturing (excluding specialty yarns) from UNF or UNF America. Pricing under the contract is negotiated every six months and is based on market rates.

Repreve Renewables. On April 26, 2010, the Company entered into an agreement to form Repreve Renewables, a joint venture in which the Company owns a 40% interest. This joint venture was established for the purpose of acquiring the assets and the expertise related to the business of cultivating, growing, and selling biomass crops, including feedstock for establishing biomass crops that are intended to be used as a fuel or in the production of fuels or energy in the U.S. and the European Union. The Company received its ownership interest in the joint venture for an initial contribution of $4.0 million. As of December 26, 2010, the Company has contributed an additional $0.6 million for its share of working capital and r ecorded $0.2 million for the Company's share of accumulated net losses, resulting in an investment balance of $4.4 million.

Earnings from equity affiliates during the second quarter of fiscal year 2011 were $5.0 million, which was an improvement of $3.4 million over the prior year same quarter. The majority of this improvement came from the Company's 34% membership interest in PAL which contributed $4.4 million to the Company's current quarter earnings compared to $1.7 million for the prior year second quarter before PAL's audit adjustments. PAL's improved performance is a result of the timing of revenue recognition related to the economic adjustment payments ("EAP") from the cotton rebate program.

Review of Second Quarter Fiscal Year 2011 compared to Second Quarter Fiscal Year 2010

The following table sets forth the net income components for each of the Company's business segments for the fiscal quarters ended December 26, 2010 and December 27, 2009. The table also sets forth each of the segments' net sales as a percent to total net sales, the net income components as a percent to total net sales and the percentage increase or decrease of such components over the comparable prior year period (amounts in thousands, except percentages):

	For the Quarters Ended				
	December 26, 2010		December 27, 2009		
		% to Total		% to Total	% Change
Net sales					
Polyester	$ 124,222	77.3	$ 104,303	73.3	19.1
Nylon	36,580	22.7	37,952	26.7	(3.6)
Total	$ 160,802	100.0	$ 142,255	100.0	13.0
		% to Net Sales		% to Net Sales	
Cost of sales					
Polyester	$ 109,752	68.2	$ 91,805	64.5	19.5
Nylon	31,969	19.9	33,114	23.3	(3.5)
Total	141,721	88.1	124,919	87.8	13.5
Restructuring charges					
Polyester	1,183	0.7	—	—	—
Nylon	—	—	—	—	—
Total	1,183	0.7	—	—	—
Selling, general and administrative expenses					
Polyester	8,802	5.5	9,574	6.7	(8.1)
Nylon	1,950	1.2	2,578	1.8	(24.4)
Total	10,752	6.7	12,152	8.5	(11.5)
Provision (benefit) for bad debts	86	0.1	(564)	(0.4)	(115.2)
Other operating expense (income), net	16	0.0	(109)	—	(114.7)
Non-operating (income) expense, net	(195)	(0.1)	2,780	1.9	(107.0)
Income from operations before income taxes	7,239	4.5	3,077	2.2	135.3
Provision for income taxes	1,854	1.2	1,124	0.8	64.9
Net income	$ 5,385	3.3	$ 1,953	1.4	175.7

Consolidated net sales from operations increased $18.5 million, or 13% for the second quarter of fiscal year 2011 compared to the prior year second quarter. Consolidated unit sales volumes increased by 11.5% for the second quarter of fiscal year 2011 reflecting improvements in all operations as demand for retail apparel and home furnishings improved. The weighted-average selling price increased by 1.6% compared to the same quarter of the prior fiscal year as improved market conditions allowed for the recovery of increased raw material costs. Net sales of the Company's PVA products increased by 36% in the current quarter over the prior year second quarter, with the average selling price per pound decreasing by 1.0% primarily driven by a change in sales mix. PVA sales volumes improved by 37% when comparing the same periods. These improvements in PVA sales dollars and volumes are a leading factor in the Company's overall improved sales results.

Domestic net sales increased $7.8 million or 7.4% primarily due to improvements in demand in the retail markets. Correspondingly, domestic volumes improved 8.3%. Retail sales of apparel increased 6.4% compared to the prior year second quarter. This marks the fifth consecutive quarter of year-over-year gains, bringing retail sales of apparel for the full calendar year 2010 within 1.4% of pre-recession levels. Retail sales of home furnishings increased 1.8%, which marks the fourth consecutive quarter of year-over-year gains. However, retail sales of home furnishings have been experiencing a much slower recovery than apparel and remain approximately 14% below pre-recession levels.

Net sales for the Company's Brazilian subsidiary, Unifi do Brasil, Ltda. ("UDB"), on a U.S. dollar basis increased by $2.3 million or 7.7% in the December 2010 quarter compared to the December 2009 quarter, which includes an increase of $0.7 million in positive currency exchange impact. On a local currency basis, net sales improved R$2.7 million or 5.1%. UDB sales volumes were negatively impacted in the current quarter as a result of increased competition from imported yarns due to the strengthening of the Brazilian real against the U.S. dollar and, as a result, decreased by 6.6% for the current quarter compared to the same prior year quarter.

The Company's Chinese subsidiary, Unifi Textiles Suzhou Co., Ltd. ("UTSC"), had net sales of $6.5 million in the current quarter as compared to $3.5 million in the prior year second quarter, an improvement of 85.7%. This is primarily a result of the Company strategically improving its sales and promotion of PVA products in the Asian region. UTSC volumes increased 63.1% over the prior year second quarter.

The Company's subsidiary in El Salvador, UCA, increased its net sales to $6.3 million in the second quarter of fiscal year 2011 as compared to $0.7 million in the prior year second quarter as the Company completed the start-up of its manufacturing facility and strategically improved its sales opportunities in the Central American region.

The Company's Colombian subsidiary, Unifi Latin America, S.A. ("ULA"), had a decrease in net sales of $0.2 million while sales volumes remained flat for the December 2010 quarter compared to the same prior year quarter.

Consolidated gross profit increased $1.7 million to $19.1 million for the second quarter of fiscal year 2011 as compared to the prior year second quarter. This increase in gross profit was primarily attributable to improved conversion (net sales less raw material cost) of $5.3 million. This increase in conversion was primarily related to an increase in the Company's domestic conversion dollars of $3.9 million or 1.5% on a per unit basis as a result of improved sales volumes, a higher proportion of PVA sales, and increased selling prices, which allowed the Company to recover previously lost margins due to higher raw material costs experienced in prior quarters. On a local currency basis, UDB's conversion increased 1.0% on a per unit basis due to a higher percentage of resale product sales with a higher conversion margin in the current quarter compared to the prior year second quarter. On a U.S. dollar basis, UDB's conversion increased 3.4% on a per unit basis, however it decreased $0.4 million overall primarily due to decreased sales volumes of manufactured product. The remaining net increase in conversion is related to UCA's and UTSC's contributions of $1.4 million and $0.6 million, respectively, to the Company's consolidated conversion offset by a reduction in conversion from ULA of $0.2 million. Offsetting the improvements in conversion, consolidated manufacturing costs increased $3.5 million for the December 2010 fiscal quarter over the December 2009 fiscal quarter, however on a per unit basis, consolidated manufacturing costs decreased by 1.1%. Consolidated variable manufacturing costs increased by $1.4 million due primarily to packaging costs, wages and fringe benefits, utility costs, warehousing, and other variable expenses offset by an increase in the amount of variable expenses capitalized to inventory. However, on a per unit basis, variable costs declined 5.2%. Consolidated fixed manufacturing costs increased $2.1 million primarily as a result of depreciation expenses of $0.8 million, other manufacturing costs of $0.5 million, allocated manufacturing costs of $0.3 million, salaries and fringe benefits of $0.1 million, and a decrease in the amount of fixed expenses capitalized to inventory of $0.4 million.

Selling, General, and Administrative Expenses

Consolidated selling, general, and administrative ("SG&A") expense decreased $1.4 million during the second quarter of fiscal year 2011 as compared to the prior year second quarter. The decrease in SG&A in the second quarter was primarily a result of decreases of $0.4 million in depreciation and amortization expenses, $0.5 million in non-cash deferred compensation costs, and $0.5 million in salary and other fringe benefit expenses.

Other Operating Expense (Income), Net

The following table shows the components of other operating expense (income), net (amounts in thousands):

	For the Quarters Ended	
	December 26, 2010	**December 27, 2009**
Loss on sale of PP&E	$ 118	$ 37
Currency gains	(54)	(133)
Other, net	(48)	(13)
Other operating expense (income), net	$ 16	$ (109)

Non-Operating (Income) Expense, Net

Net non-operating income increased in the current quarter over the same prior year quarter primarily due to improvements in income from the Company's equity affiliates. In addition, the Company incurred $0.5 million of costs related to its decision to abandon the refinancing of its 2014 notes. See "Recent Developments and Outlook" and "Joint Ventures and Other Equity Investments" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion.

Income from Operations Before Income Taxes

As reflected in the tables and discussions above, the Company recognized $7.2 million of income from operations before income taxes, which was an increase of $4.2 million over the prior year second quarter. The increase in income from operations was primarily attributable to improved gross profit in the domestic operations as a result of improvements in operations, as a result of increased retail demand in the Company's core markets, increased earnings from the Company's unconsolidated affiliates, and a decrease in consolidated SG&A expenses offset by an increase in consolidated restructuring charges and a decline in income from operations before income taxes from its Brazilian operations.

Income Taxes

The Company's income tax provision for the quarter ended December 26, 2010 resulted in tax expense at an effective rate of 25.6% compared to the quarter ended December 27, 2009, which resulted in tax expense at an effective rate of 36.5%. The difference between the Company's income tax expense and the U.S. statutory rate for the quarter ended December 26, 2010 was primarily due to the utilization of prior losses for which no benefit had been recognized previously, and foreign operations taxed at rates lower than the U.S., partially offset by foreign dividends taxed in the U.S. The differences between the Company's income tax expense and the U.S. statutory rate for the quarter ended December 27, 2009 was primarily due to losses in the U.S. and other jurisdictions for which no t ax benefit could be recognized while operating profit was generated in other taxable jurisdictions.

Deferred income taxes have been provided for the temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. 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 taxable income during the periods in which those temporary differences reverse. Management considers the scheduled reversal of taxable temporary differences, taxable income in carryback periods, projected future taxable income and tax planning strategies in making this assessment. The Company currently has a full valuation allowance against its net deferred tax assets in the US due to negative evidence concerning the realization of those deferred tax assets in recent years. As results of operations improve, the Company continues to evaluate both positive and negative evidence to determine whether and when the valuation allowance, or a portion thereof, should be released. A release of the valuation allowance could have a material effect on earnings in the period of release.

The Company is subject to income tax examinations for U.S. federal income taxes for fiscal years 2004 through 2010, for non-U.S. income taxes for tax years 2001 through 2010, and for state and local income taxes for fiscal years 2001 through 2010.

Polyester Operations

Consolidated polyester unit volumes increased by 12.5% for the quarter ended December 26, 2010, while weighted-average net selling prices increased by 6.6% as compared to the quarter ended December 27, 2009 primarily due to the recovery of core markets, retail apparel and retail home furnishings. Net sales for the polyester segment for the second quarter of fiscal year 2011 increased by $19.9 million or 19.1% as compared to the same quarter in the prior year. Net sales and sales volumes of the Company's polyester PVA products increased by 37% and 38%, respectively in the current quarter over the prior year second quarter. The average polyester PVA selling price on a per pound basis decreased 1.0% when comparing the same periods primarily due to changes in sales mix. These improvements in polyester PVA sales dollars and volumes are a leading factor in the Company's overall improved polyester sales results.

Domestically, polyester net sales increased by $9.3 million, or 13.4%, for the second quarter of fiscal year 2011 as compared to the second quarter of fiscal year 2010. The Company increased its sales prices across all polyester products, increasing the weighted-average selling price by 4.1%. Domestic unit volumes increased by 9.2% as a result of the increase in consumer demand.

On a U.S. dollar basis, net sales for UDB increased by $2.3 million or 7.7% in the December 2010 quarter compared to the prior year second quarter which includes an increase of $0.7 million in positive currency exchange impact. On a local currency basis, net sales increased by R$2.7 million or 5.1%. Brazilian polyester sales volumes decreased by 6.6% for the second quarter of fiscal year 2011 versus the second quarter of the prior fiscal year. Average net sales price on a local currency basis increased 12.5% as a result of increased raw material costs.

The Company's Chinese subsidiary, UTSC, had an increase in its polyester net sales to $6.3 million in the second quarter of fiscal year 2011 as compared to $3.5 million in the prior year second quarter as the Company strategically improved its sales and promotion of PVA products in the Asian region.

The Company's subsidiary in El Salvador, UCA, had an increase in its polyester net sales to $5.9 million in the second quarter of fiscal year 2011 as compared to $0.4 million in the prior year second quarter as the Company completed the start-up of its manufacturing facility and strategically improved its sales opportunities in the Central American region.

Gross profit for the consolidated polyester segment increased $2.0 million, or 15.8%, for the second quarter of fiscal year 2011 over the second quarter of fiscal year 2010. On a per unit basis, gross profit increased 2.9%. During the second quarter of fiscal year 2011, conversion increased 5.2% on a per unit basis compared to the same quarter of the prior year. This increase is primarily attributable to improvements in the Company's domestic conversion as a result of a higher percentage of PVA products in the sales mix and increased selling prices, which allowed the Company to recover previously lost margins due to higher raw material costs experienced in prior quarters. Consolidated per unit manufacturing costs increased 6.2%, which consisted of a 1.7% increase in per unit va riable manufacturing costs and a 17.4% increase in per unit fixed manufacturing costs, as discussed further below.

Domestic gross profit increased by $2.5 million, or 45.4%, for the second quarter of fiscal year 2011 over the second quarter of fiscal year 2010 primarily as a result of improvement in conversion dollars. Domestic polyester conversion increased by $5.0 million, or 10.2% on a per unit basis, due to increases in PVA sales and improved pricing as the Company regained conversion lost during the second half of fiscal year 2010. Variable manufacturing costs increased by $1.0 million due primarily to packaging costs, wages and fringe benefits, other variable, warehousing offset by decreased utilities and decreased variable costs capitalized to inventory. Variable manufacturing costs decreased 2.8% on a per unit basis as a result of improved volumes and operational efficiencies. Fixed manufacturing costs increased $1.5 million, or 33.1%, on a per unit basis primarily as a result of increase in depreciation expenses of $0.6 million, allocated manufacturing costs of $0.2 million, and other fixed costs of $0.3 million and a decrease in the amount of fixed expenses capitalized to inventory of $0.4 million.

On a local currency basis (the Brazilian real), gross profit for UDB decreased by R$1.7 million, or 8.8% on a per unit basis for the December 2010 quarter as compared to the prior year second quarter. On a per unit basis, conversion increased 1.0% as sales prices increased by 12.5% which was offset by increases in per unit raw material costs of 19.4%. Brazilian volumes and conversion margins were negatively impacted in the current quarter as a result of increased competition from imported yarns due to the strengthening of the Brazilian real against the U.S. dollar. Variable manufacturing costs increased by R$0.3 million and fixed manufacturing costs increased by R$0.2 million. On a U.S. dollar basis, gross profit decreased by $0.8 million, or 6.6% on a per unit basis.

Consolidated polyester SG&A expenses for the second quarter of fiscal year 2011 were $8.8 million compared to $9.6 million in the same quarter in the prior year. The polyester segment's SG&A expenses consist of 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 fiscal year using specific budgeted cost drivers.

Nylon Operations

Consolidated nylon unit volumes increased by 3.5% in the second quarter of fiscal year 2011 compared to the prior year quarter while average net selling prices decreased by 7.1%. Net sales for the nylon segment in the second quarter of fiscal year 2011 decreased by $1.4 million, or 3.6%, as compared to the second quarter of fiscal year 2010. The decrease in nylon net sales and the decrease in average selling price were primarily driven by increased sales of lower priced textured products as a percentage of total net sales.

Gross profit for the nylon segment decreased by $0.2 million, or 4.7%, in the second quarter of fiscal year 2011 compared to the prior year quarter. Conversion margin for the nylon segment decreased by $1.4 million which was offset by decreased manufacturing costs of $1.1 million. On a per unit basis, conversion decreased by 12.0% offset by a decrease in manufacturing costs of 13.5%, primarily due to the change in product sales mix. Variable manufacturing costs decreased by $1.0 million primarily due to decreases in wages and fringe benefits of $0.4 million and utility costs of $0.4 million. Fixed manufacturing costs decreased by $0.1 million.

Consolidated nylon SG&A expenses for the second quarter of fiscal year 2011 were $2.0 million compared to $2.6 million in the same quarter in the prior year. The nylon segment's SG&A expenses consist of 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 fiscal year using specific budgeted cost drivers.

Corporate

During the second quarter of fiscal year 2011, the Board of Directors ("Board") authorized the issuance of an aggregate of 25,200 restricted stock units ("RSUs") under the 2008 Long-Term Incentive Plan to the Company's non-employee directors. The RSUs are subject to vesting restriction and convey no rights of ownership in shares of Company stock until such RSUs have vested and been distributed to the grantee in the form of Company stock. The RSUs will become fully vested on November 27, 2011, provided the grantee remains in continuous service as a member of the Board from the grant date until the vesting date. The vested RSUs will be converted into an equivalent number of shares of Company common stock and distributed to the grantee following the grantee 's termination of services as a member of the Board. The Company estimated the grant-date fair value of the award to be $13.89 per RSU.

The Company incurred $0.2 million and $0.7 million in the second quarter of fiscal years 2011 and 2010, respectively, in stock-based compensation expense which was recorded as SG&A expenses with the offset to capital in excess of par value.

During the second quarter of fiscal year 2011, the Company issued 8,888 shares of common stock as a result of the exercise of stock options.   There were no stock options exercised during the second quarter of fiscal year 2010.

Review of Year-To-Date Fiscal Year 2011 compared to Year-To-Date Fiscal Year 2010

The following table sets forth the net income components for each of the Company's business segments for the year-to-date periods ended December 26, 2010 and December 27, 2009. The table also sets forth each of the segments' net sales as a percent to total net sales, the net income components as a percent to total net sales and the percentage increase or decrease of such components over the comparable prior year period (amounts in thousands, except percentages):

	For the Six-Months Ended				
	December 26, 2010		December 27, 2009		
		% to Total		% to Total	% Change
Net sales					
Polyester	$ 254,078	75.9	$ 208,763	73.2	21.7
Nylon	80,744	24.1	76,343	26.8	5.8
Total	$ 334,822	100.0	$ 285,106	100.0	17.4
		% to Net Sales		% to Net Sales	
Cost of sales					
Polyester	$ 224,562	67.1	$ 182,462	64.0	23.1
Nylon	70,016	20.9	65,902	23.1	6.2
Total	294,578	88.0	248,364	87.1	18.6
Restructuring charges					
Polyester	1,546	0.5	—	—	—
Nylon	—	—	—	—	—
Total	1,546	0.5	—	—	—
Write down of long-lived assets					
Polyester	—	—	100	—	—
Nylon	—	—	—	—	—
Total	—	—	100	—	—
Selling, general and administrative expenses					
Polyester	17,734	5.3	18,406	6.5	(3.7)
Nylon	4,145	1.2	4,910	1.7	(15.6)
Total	21,879	6.5	23,316	8.2	(6.2)
Provision for bad debts	45	—	12	—	275.0
Other operating expense (income), net	259	0.1	(196)	(0.1)	(232.1)
Non-operating (income) expense, net	(3,476)	(1.1)	5,409	1.9	(164.3)
Income from operations before income taxes	19,991	6.0	8,101	2.9	146.8
Provision for income taxes	4,371	1.3	3,659	1.3	19.5
Net income	$ 15,620	4.7	$ 4,442	1.6	251.6

Consolidated net sales from operations increased $49.7 million, or 17.4%, for the year-to-date period of fiscal year 2011 compared to the prior year-to-date period. Consolidated unit sales volumes increased by 12.4% for the December year-to-date period of fiscal year 2011 reflecting improvements in all operations as demand for retail apparel and home furnishings improved. The weighted-average selling price increased by 5.0% compared to the same period of the prior fiscal year as improved market conditions allowed for the recovery of increased raw material costs. Net sales of the Company's PVA products increased by 39% in the current year-to-date period over the prior year-to-date period, with the average selling price per pound decreasing by 2.5% primarily driven by a change in sales mix. PVA sales volumes improved 42% when comparing the same periods. These improvements in PVA sales dollars and volumes are a leading factor in the Company's overall improved sales results.

Domestic net sales increased $24.5 million, or 11.6%, from improvements in demand in the retail markets. Correspondingly, domestic volumes improved 9.1%. Retail sales of apparel increased 4.8% compared to the prior year-to-date period, bringing retail sales of apparel for the full calendar year 2010 within 1.4% of pre-recession levels. Retail sales of home furnishings increased 2.4%. However, retail sales of home furnishings have been experiencing a much slower recovery than apparel and remain approximately 14% below pre-recession levels.

Net sales for UDB on a U.S. dollar basis increased by $6.4 million, or 10.0%, for the December 2010 year-to-date period compared to the December 2009 year-to-date period, which includes an increase of $3.0 million in positive currency exchange impact. On a local currency basis, net sales improved R$5.9 million or 5.1%. UDB sales volumes were negatively impacted as a result of increased competition from imported yarns due to the strengthening of the Brazilian real against the U.S. dollar and as a result decreased by 5.0% for the current year-to-date period compared to the same prior year period.

The Company's Chinese subsidiary, UTSC, had net sales of $13.5 million in the December 2010 year-to-date period as compared to $6.4 million in the same prior year-to-date period, an improvement of 110.9%. This is a result of the Company strategically improving its sales and promotion of PVA products in the Asian region. UTSC volumes increased 79.7% over the same prior year-to-date period.

The Company's subsidiary in El Salvador, UCA, had an increase in its net sales to $12.4 million for the December 2010 year-to-date period as compared to $0.7 million in the same prior year-to-date period as the Company completed the start-up of its manufacturing facility and strategically improved its sales opportunities in the Central American region.

Consolidated gross profit increased $3.5 million to $40.2 million for the year-to-date period of fiscal year 2011 as compared to the prior year-to-date period. This increase in gross profit was primarily attributable to improved conversion of $12.1 million. This increase in conversion was primarily related to an increase in the Company's domestic conversion dollars of $10.0 million, or 3.2% on a per unit basis, as a result of improved sales volumes, a higher proportion of PVA sales, and increased selling prices, which allowed the Company to recover previously lost margins due to higher raw material costs experienced in prior quarters. On a local currency basis, UDB's conversion decreased 7.0% on a per unit basis driven by a reduction in per unit conversion on its resale products. On a U.S. dol lar basis, UDB's conversion decreased 2.6% on a per unit basis and $1.8 million overall primarily due to decreased sales volumes of manufactured product and a decrease in per unit sales of resale products. The remaining net increase in conversion is related to UCA's and UTSC's contributions of $2.3 million and $1.5 million, respectively, to the Company's consolidated conversions offset by a reduction in conversion from ULA of $0.2 million. Offsetting the improvements in conversion, consolidated manufacturing costs increased $8.6 million for the December 2010 year-to-date period over the December 2009 year-to-date period, however on a per unit basis, consolidated manufacturing costs increased 0.3%. Consolidated variable manufacturing costs increased by $5.3 million primarily due to packaging costs, wages and fringe benefits, utility costs, warehousing, transportation and other variable offset by increases in variable expenses capitalized to inventory.&# 160; Consolidated fixed manufacturing costs increased $3.3 million primarily as a result of an increase in depreciation expenses of $1.0 million, other fixed manufacturing costs of $0.9 million, allocated manufacturing costs of $1.0 million, and salaries and fringe benefits of $0.7 million offset by higher fixed costs capitalized to inventory of $0.3 million.

Selling, General, and Administrative Expenses

Consolidated SG&A expense decreased $1.4 million during the year-to-date period of fiscal year 2011 as compared to the prior year-to-date period. The decrease in SG&A expense was primarily a result of $0.9 million in non-cash deferred compensation costs, decreases of $0.7 million in depreciation and amortization expenses, $0.3 million in sales and marketing expenses, and $0.2 million in salary and fringe benefit expenses offset by increases of $0.7 million in professional fees.

Other Operating Expense (Income), Net

The following table shows the components of other operating expense (income), net (amounts in thousands):

	For the Six-Months Ended	
	December 26, 2010	December 27, 2009
Loss (gain) on sale of PP&E	$ 53	$ (57)
Currency losses (gains)	310	(120)
Other, net	(104)	(19)
Other operating expense (income), net	$ 259	$ (196)

Non-Operating (Income) Expense, Net

Earnings from equity affiliates for the year-to-date period ended December 26, 2010 was $14.0 million, which was an improvement of $10.3 million over the same prior year period. The majority of this improvement came from the Company's 34% membership interest in PAL, which contributed $13.1 million to the Company's current year-to-date earnings compared to $4.1 million for the same prior year period. PAL's improved performance is primarily a result of the timing of revenue recognition related to the EAP cotton rebate program.

As discussed under the caption "Recent Developments and Outlook" in "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Company sought to refinance its 2014 notes. Due to market conditions, the Company strategically abandoned the refinancing of its 2014 notes for a preferable, lower cost option to redeem a portion of its 2014 notes utilizing its revolving credit facility. As a result, the Company incurred $0.5 million of costs related to its decision to change its refinancing strategy.

Income from Operations Before Income Taxes

As reflected in the tables and discussions above, the Company recognized $20.0 million of income from operations before income taxes, which was an increase of $11.9 million over the prior year-to-date period. The increase in income from operations was primarily attributable to improved gross profit in the domestic operations and UTSC as a result of increased retail demand in the Company's core markets, increased earnings from the Company's unconsolidated affiliates, and a decrease in consolidated SG&A expenses offset by an increase in consolidated restructuring charges and a decline in income from operations before income taxes from its Brazilian operations.

Income Taxes

The Company's income tax provision for the year-to-date period ended December 26, 2010 resulted in tax expense at an effective rate of 21.9% compared to the year-to-date period ended December 27, 2009, which resulted in tax expense at an effective rate of 45.2%. The difference between the Company's income tax expense and the U.S. statutory rate for the year-to-date period ended December 26, 2010 was primarily due to the utilization of prior losses for which no benefit had been recognized previously, and foreign operations taxed at rates lower than the U.S., partially offset by foreign dividends taxed in the U.S. The differences between the Company's income tax expense and the U.S. statutory rate for the year-to-date period ended December 27, 2009 was primarily due to loss es in the U.S. and other jurisdictions for which no tax benefit could be recognized while operating profit was generated in other taxable jurisdictions.

Deferred income taxes have been provided for the temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. 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 taxable income during the periods in which those temporary differences reverse. Management considers the scheduled reversal of taxable temporary differences, taxable income in carryback periods, projected future taxable income and tax planning strategies in making this assessment. The Company currently has a full valuation allowance against its net deferred tax assets i n the US due to negative evidence concerning the realization of those deferred tax assets in recent years. As results of operations improve, the Company continues to evaluate both positive and negative evidence to determine whether and when the valuation allowance, or a portion thereof, should be released. A release of the valuation allowance could have a material effect on earnings in the period of release.

The Company is subject to income tax examinations for U.S. federal income taxes for fiscal years 2004 through 2010, for non-U.S. income taxes for tax years 2001 through 2010.

Polyester Operations

Consolidated polyester unit volumes increased by 12.3% for the year-to-date period ended December 26, 2010, while weighted-average net selling prices increased by 9.4% as compared to the year-to-date period ended December 27, 2009 primarily due to the recovery of core markets, retail apparel and retail home furnishings. Net sales for the polyester segment for the year-to-date period of fiscal year 2011 increased by $45.3 million or 21.7% as compared to the prior year-to-date period. Net sales and sales volumes of the Company's polyester PVA products increased by 45% in the year-to-date period over the prior year-to-date period. These improvements in polyester PVA sales dollars and volumes are a leading factor in the Company's overall improved polyester sales results.

Domestically, polyester net sales increased by $21.7 million, or 15.8% for the year-to-date period of fiscal year 2011 as compared to the year-to-date period of fiscal year 2010. The Company increased its sales prices across all polyester products, increasing the weighted-average selling price by 7.1%. Domestic unit volumes increased by 8.7% as a result of the increase in consumer demand in all segments, as discussed above.

Net sales for UDB increased by $6.5 million or 10.0% in the year-to-date period compared to the prior year-to-date period which includes an increase of $3.0 million in positive currency exchange impact. On a local currency basis, UDB's net sales increased by R$5.9 million or 5.1%. Sales prices increased by 10.6% on a per unit basis. UDB's polyester sales volume decreased by 5.0% for the year-to-date period of fiscal year 2011 versus the same period of the prior fiscal year.

The Company's Chinese subsidiary, UTSC, had an increase in its polyester net sales to $13.0 million in the year-to-date period of fiscal year 2011 as compared to $6.4 million in the prior year-to-date period as the Company strategically improved its sales and promotion of PVA products in the Asian region.

The Company's subsidiary in El Salvador, UCA, had an increase in its polyester net sales to $10.9 million for the year-to-date period of fiscal year 2011 as compared to $0.4 million in the prior year-to-date period as the Company completed the start-up of its manufacturing facility and strategically improved its sales opportunities in the Central American region.

Gross profit for the consolidated polyester segment increased $3.2 million, or 12.2% for the current year-to-date period over the prior year-to-date same period. On a per unit basis, gross profit decreased 0.1%. During the year-to-date period of fiscal year 2011, conversion increased 2.4% on a per unit basis compared to the same period of the prior year. This increase is primarily attributable to improvements in the Company's domestic conversion as a result of increases in PVA sales and increased selling prices which allowed the Company to recover previously lost margins due to higher raw material costs experienced in prior quarters. Per unit manufacturing costs increased 4.1% which consisted of increased per unit variable manufacturing costs of 1.6% and increased per unit fixe d manufacturing costs of 10.3% as discussed further below.

Domestic polyester gross profit increased by $5.9 million, or 53.9%, for the year-to-date period of fiscal year 2011 over the prior year-to-date period primarily as a result of improvement in conversion dollars. Domestic polyester conversion increased by $9.1 million, or 8.6% on a per unit basis, due to a higher proportion of PVA sales and improved pricing as the Company regained conversion lost during the second half of fiscal year 2010. Variable manufacturing costs increased by $1.7 million due primarily to packaging costs, wage and fringe benefits, other variable utilities offset by increases in variable expenses capitalized to inventory. However variable manufacturing costs decreased 3.2% on a per unit basis as a result of improved volumes and operational efficiencies. ;Fixed manufacturing costs increased $1.6 million or 11.2% on a per unit basis primarily as a result of an increase in depreciation costs of $0.8 million, allocated manufacturing costs of $0.7 million, salaries and fringe benefits of $0.1 million other fixed of $0.3 million, offset by increases in fixed costs capitalized to inventory of $0.3 million.

On a local currency basis (the Brazilian real), gross profit for the Company's Brazilian operations decreased by R$5.8 million, or 18.4% on a per pound basis for the current year-to-date period as compared to the prior year-to-date period. UDB's volumes and conversion margins were negatively impacted in the year-to-date period as a result of increased competition from imported yarns due to the strengthening of the Brazilian real against the U.S. dollar. Variable manufacturing costs increased by R$0.3 million while fixed manufacturing costs increased by R$0.4 million. On a U.S. dollar basis, UDB's gross profit decreased by $2.7 million, or 14.1% on a per unit basis.

Consolidated polyester SG&A expenses for the year-to-date period of fiscal year 2011 were $17.7 million compared to $18.4 million in the same period in the prior year. The polyester segment's SG&A expenses consist of 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 fiscal year using specific budgeted cost drivers.

Nylon Operations

Consolidated nylon unit volumes increased by 13.1% in the year-to-date period of fiscal year 2011 compared to the prior year-to-date period while average net selling prices decreased by 7.3%. Net sales for the nylon segment in the year-to-date period of fiscal year 2011 increased by $4.4 million, or 5.8%, as compared to the prior year-to-date period. The increase in nylon net sales and the decrease in average selling price were primarily driven by increased sales of lower priced textured products as a percentage of total net sales.

Gross profit for the nylon segment increased by $0.3 million, or 2.7%, in the year-to-date period of fiscal year 2011 compared to the prior year-to-date period. Conversion margin for the nylon segment increased by $0.8 million which was offset by increased manufacturing costs of $0.5 million. On a per unit basis, conversion decreased 9.3% offset by a decrease in manufacturing costs of 9.2% due to a lower priced product mix. Variable manufacturing costs increased by $0.5 million primarily due to increases in packaging cost of $0.3 million. Fixed manufacturing costs remained flat as compared to the prior year.

Consolidated nylon SG&A expenses for the year-to-date period of fiscal year 2011 were $4.1 million compared to $4.9 million in the same period in the prior year. The nylon segment's SG&A expenses consist of 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 fiscal year using specific budgeted cost drivers.

Corporate

On June 30, 2010, the Company redeemed $15.0 million of its 2014 notes at a redemption price of 105.75% of the principal amount of the redeemed 2014 notes. This redemption was financed through a combination of internally generated cash and borrowings under the Company's senior secured asset-based revolving credit facility. As a result, the Company recorded a $1.1 million charge for the early extinguishment of debt in the September 2010 quarter of which $0.8 million related to the premium paid for the bonds and $0.3 million related to the retirement of related bond issue costs.

During the first quarter of fiscal year 2010, the Compensation Committee of the Board authorized the issuance of 566,659 stock options from the 2008 Long-Term Incentive Plan to certain key employees and certain members of the Board. The stock options vest ratably over a three year period and have ten year contractual terms. The Company used the Black-Scholes model to estimate the weighted-average grant date fair value of $3.34 per share.

During the second quarter of fiscal year 2011, the Board authorized the issuance of an aggregate of 25,200 RSUs under the 2008 Long-Term Incentive Plan to the Company's non-employee directors. The RSUs are subject to vesting restriction and convey no rights of ownership in shares of Company stock until such RSUs have vested and been distributed to the grantee in the form of Company stock. The RSUs will become fully vested on November 27, 2011, provided the grantee remains in continuous service as a member of the Board from the grant date until the vesting date. The vested RSUs will be converted into an equivalent number of shares of Company common stock and distributed to the grantee following the grantee's termination of services as a member of the Board. The Company estimated the grant-date fair value of the award to be $13.89 per RSU.

The Company incurred $0.4 million and $1.3 million for the year-to-date periods of fiscal years 2011 and 2010, respectively, in stock-based compensation expense which was recorded as SG&A expenses with the offset to capital in excess of par value.

During the year-to-date period of fiscal year 2011, the Company issued 8,888 shares of common stock as a result of the exercise of stock options. There were no stock options exercised during the year-to-date period of fiscal year 2010.

Liquidity and Capital Resources

Liquidity Assessment

The Company's primary capital requirements are for working capital, capital expenditures, debt repayment, 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 reduce debt, fund capital expenditures, and enable cost reductions through restructuring projects as follows:

- *Deleveraging Strategy.* Commencing in the third quarter of fiscal year 2011, the Company plans to utilize a combination of internally generated cash and limited borrowings on its asset-based revolving credit facility to repurchase and retire portions of its 2014 notes. The Company expects to maintain a continuous balance outstanding under its revolving credit facility and hedge a substantial amount of the interest rate risk in order to ensure its interest savings. As a result of the utilization of cash on hand to reduce outstanding debt and the lower rate under the revolving credit facility, the Company expects a significant reduction of its annual fixed carrying cost between the commencement of this debt reduction strategy and the final repayment of the 2014 notes.

- *Capital Expenditures.* During the first six months of fiscal year 2011, the Company spent $13.3 million on capital expenditures compared to $5.0 million during the same period in fiscal year 2010. The Company estimates its fiscal year 2011 capital expenditures will be approximately $20.0 million, which includes approximately $14.0 million of strategic capital expenditures focused on modernizing and improving current productivity levels of its plants and equipment. In February 2010, the Board approved a plan to expand its production capabilities to include a new state-of-the art recycled chip facility in Yadkinville, North Carolina. This backward integration of the recycle supply chain will provide opportunities for the Company to recycle both post-consumer and post-industrial waste back into its Repreve® products. This will allow the Company to improve the availability of recycled raw materials, and significantly increase product capabilities and competitiveness in this growing market segment. The Company expects this recycling project to be completed by the third quarter of fiscal year 2011. The total investment in this capital project is expected to be approximately $8.0 million of which the Company had incurred $6.1 million as of December 26, 2010. The Company may incur additional capital expenditures as it pursues new opportunities to expand its production capabilities or to further streamline its manufacturing processes.

- *Joint Venture Investments.* During the first six months of fiscal year 2011, the Company received $2.5 million in dividend distributions from its joint ventures. Historically, the Company has received distributions from certain of its joint ventures every year; however there is no guarantee that the Company will continue to receive distributions in the future. In addition, the Company contributed an additional $0.3 million for working capital to its newly formed Repreve Renewables joint venture. The Company may strategically 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.

- *Investment*. In the third quarter of fiscal year 2010, the Company established a wholly-owned subsidiary, UCA, to provide a base of operations in El Salvador. The total investment in UCA is expected to be approximately $19.5 million, of which $9.0 million is related to intercompany funding of working capital and $3.1 million is intercompany sales of PP&E. UCA began selling U.S. manufactured products during the third quarter of fiscal year 2010.

Cash Provided by Operations

The following table summarizes the net cash provided by operations (amounts in millions):

	For the Six-Months Ended	
	December 26, 2010	December 27, 2009
Cash provided by operations		
Cash receipts:		
Receipts from customers	$ 345.6	$ 296.0
Dividends from unconsolidated affiliates	2.5	1.6
Other receipts	1.4	1.6
Cash payments:		
Payments to suppliers and other operating costs	258.9	214.6
Payments for salaries, wages, and benefits	61.0	50.9
Payments for restructuring and severance	1.8	0.7
Payments for interest	10.1	10.2
Payments for taxes	3.3	4.0
Effects of foreign currency on net income	(0.1)	0.1
Cash provided by operations	$ 14.5	$ 18.7

Cash provided by operations decreased from $18.7 million for the year-to-date period of fiscal year 2010 to $14.5 million in the year-to-date period of fiscal year 2011. Cash received from customers increased from $296.0 million to $345.6 million primarily due to higher net sales volumes. Payments to suppliers and for other operating costs increased from $214.6 million to $258.9 million primarily as a result of higher sales volumes. Salary, wage and benefit payments increased from $50.9 million to $61.0 million primarily as a result of the payout of the prior fiscal year's bonus accrual and overtime incurred for the Company's wage workforce. Restructuring and severance payments were $1.8 million for the current year-to-date period compared to $0.7 million from the same prior year period. The increase in restructuring payments relates to cost incurred by the Company to dismantle and move machinery to El Salvador and reinstall previously dismantled texturing machines in Yadkinville. Taxes paid by the Company decreased from $4.0 million to $3.3 million as a result of a decrease in tax liabilities related to the Company's Brazilian subsidiary offset by an increase in the domestic operations. The Company received cash dividends of $2.5 million and $1.6 million from PAL for the first six-month periods of fiscal year 2011 and 2010, respectively. Cash received from other miscellaneous sources including interest decreased from $1.6 million in the prior year-to-date period to $1.4 million in the current year-to-date period.

Working capital increased from $174.5 million at June 27, 2010 to $189.0 million at December 26, 2010 due to decreases in current portion of notes payable of $15.0 million, increases in inventories of $12.0 million, decreases in accrued expenses of $6.8 million, decreases in accounts payable of $0.9 million, and increases in deferred income taxes of $0.2 million offset by decreases in cash of $9.5 million, decreases in accounts receivables of $9.2 million, increases in income tax payable of $1.1 million, increases in current maturities of long-term debt and other liabilities of $0.4 million, and decreases in other current assets of $0.2 million. The working capital current ratio was 4.3 at December 26, 2010 and 3.2 at June 27, 2010.

Cash Used In Investing Activities and Financing Activities

The Company utilized $9.8 million in net investing activities and utilized $16.6 million in net financing activities during the six-month period ended December 26, 2010. The primary cash expenditures for investing and financing activities during the first six months of fiscal year 2011 included $15.9 million to repurchase a portion of the 2014 notes with a face value of $15.0 million, $13.3 million in capital expenditures, $0.3 million for a working capital investment in an unconsolidated affiliate and $0.8 for debt refinancing fees, offset by $3.2 million from the proceeds from split dollar life insurance surrenders, $0.1 million in proceeds from the sale of capital assets and $0.5 million related to loan repayments from unconsolidated equity affiliates and $0.1 million from the proceeds from stock optio n exercises.

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 First Amendment to the Amended and Restated Credit Agreement (as amended, the "First 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 matu re 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 its 2014 notes which mature on May 15, 2014 and its First 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 fund capital expenditures, and its ability to generate cash depends on many factors beyond its control" included in the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 2010. Some risks that could adversely affect i ts 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 of its customers and the operating performance of joint ventures, alliances and other equity investments.

Note Repurchases. The Company may, from time to time, seek to retire or purchase its outstanding debt in open market purchases, in privately negotiated transactions or by calling a portion of the 2014 notes under the terms of the indenture governing the 2014 notes (the "Indenture"). 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. On January 11, 2011, the Company announced that it is calling for redemption on February 16, 2011 an aggregate principal amount of $30 million of the 2014 notes in accordance with the Indenture. Pursuant to the terms of the Indenture, the redemption price for the 2014 notes will be 105.75% of the principal amount of the redeemed notes, plus accrued and unpaid interest. Following completion of the redemption, the aggregate principal amount of the 2014 notes that will remain outstanding will be $133.7 million. Commencing in the third quarter of fiscal year 2011, the Company plans to utilize a combination of internally generated cash and limited borrowings on its asset-based revolving credit facility to repurchase and retire portions of its 2014 notes. The Company expects to maintain a continuous balance outstanding under its revolving credit facility and hedge a substantial amount of the interest rate risk in order to ensure its interest savings. As a result of the utilization of cash on hand to reduce outstanding debt and the lower rate under the revolving credit facility, the Company expects a significant reduction of its annual fixed carrying cost between the comme ncement of this debt reduction strategy and the final repayment of the 2014 notes. See "Long-term Debt" included in the "Liquidity and Capital Resources" section below for a detailed discussion of the interest rates and covenants related to the Company's revolving credit facility.

Contingencies

Environmental Liabilities. 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 DuPont. Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the U.S. Environmental Protection Agency ("EPA") and the North Carolina Department of Environment and Natural Resources ("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 will be t ransferred 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.

Berry Amendment Contingencies. The Company is aware of certain claims and potential claims against it for the alleged use of non-compliant "Berry Amendment" nylon POY in yarns that the Company sold which may have ultimately been used to manufacture certain U.S. military garments (the "Military Claims"). As of June 27, 2010, the Company recorded an accrual for the Military Claims of which $0.3 million was paid or settled during the quarter ended September 26, 2010.

Other Factors Affecting Liquidity

Stock Repurchase Program. Effective July 26, 2000, the Board increased the remaining authorization to repurchase up to 3.3 million shares of the Company's common stock of which approximately 1.0 million shares were subsequently repurchased. The repurchase program was suspended in November 2003 and the Company has no immediate plans to reinstitute the program. There is remaining authority for the Company to repurchase approximately 2.3 million shares of its common stock under the repurchase plan. The repurchase plan has no stated expiration or termination date. All share amounts and computations using such amounts have been retroactively adjusted to reflect the November 3, 2010 1-for-3 reverse stock split.

Market Conditions. Deterioration of global economic conditions could reduce demand for the Company's product faster than management's ability to react through further consolidation of its manufacturing capacity, since the Company is a high volume, high fixed cost business. These conditions could also materially affect the Company's customers causing reductions or cancellations of existing sales orders and inhibit the collectibility of receivables. In addition, the Company's suppliers may be unable to fulfill the Company's outstanding orders or could change credit terms that would negatively affect the Company's liquidity. All of these factors could adversely impact the Company's results of operati ons, financial condition and cash flows.

Long-Term Debt

On May 26, 2006, the Company issued $190 million of 2014 notes. 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 First Amended Credit Agreement as discussed below. T he 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's 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 December 26, 2010 was approximately $170.5 million.

In accordance with the collateral documents and the Indenture, the proceeds from the sale of PP&E (First Priority Collateral) will be deposited into the First Priority Collateral Account whereby the Company may use the restricted funds to purchase additional qualifying assets. From May 26, 2006 through December 26, 2010, the Company sold PP&E secured by first-priority liens in an aggregate amount of $29.5 million and purchased qualifying assets in the same amount, leaving no funds remaining in the First Priority Collateral Account.

The Company can currently 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. The Company may also purchase its 2014 notes in open market purchases or in privately negotiated transactions and then retire them or it may refinance all or a portion of the 2014 notes with a new debt offering. Such purchases or refinancing of the 2014 notes will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. There were no such optional redemptions or repurchases of the 2014 notes in the December 2010 quarter. However, on December 28, 2010, the Company announced its commencement of a cash tender offer for any and all of its outstanding 201 4 notes for total consideration of 106.0% of the principal amount of the 2014 notes validly tendered, conditioned upon the receipt of at least $140.0 million from a new debt financing on terms satisfactory to the Company. Subsequently, on January 11, 2011, the Company announced its termination of the cash tender offer due to the condition of the debt capital markets which made the estimated cost savings generated from a new debt financing insufficient to offset the estimated costs of conducting such a transaction. Instead, the Company announced that it was calling for the redemption of $30.0 million of the 2014 notes at a redemption price of 105.75% of the principal amount of the redeemed notes to be effective on February 16, 2011. The Company plans to finance this redemption through a combination of internally generated cash and borrowings under the Company's senior secured asset-based revolving credit facility discussed below. As a result, the Company expec ts to record a $2.2 million charge for the early extinguishment of debt in the March 2011 quarter which is comprised of $1.7 million of call premiums and a $0.5 million non-cash charge to write off unamortized debt issuance costs.

On September 9, 2010, the Company and its subsidiary guarantors (as co-borrowers) entered into the First Amended Credit Agreement with Bank of America, N.A. (as both Administrative Agent and Lender thereunder). The First Amended Credit Agreement provides for a revolving credit facility in an amount of $100 million (with the ability of the Company to request that the borrowing capacity be increased up to $150 million) and matures on September 9, 2015, provided that unless the 2014 notes have been prepaid, redeemed, defeased or otherwise repaid in full on or before February 15, 2014, the maturity date will be adjusted to February 15, 2014. The First Amended Credit Agreement amends the amended senior secured asset-based revolving credit facility ("Amended Credit Agreement") which had a stated mat urity date of May 15, 2011. See "Footnote 3. Long-term Debt and Other Liabilities" included in the Company's Annual Report on Form 10-K for fiscal year ended June 27, 2010 for a discussion of terms and covenants of the Amended Credit Agreement. As of December 26, 2010, under the terms of the First Amended Credit Agreement, the Company had no outstanding borrowings and borrowing availability of $77.9 million.

The First 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 Firs t 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 First Amended Credit Agreement bear interest at rates of LIBOR plus 2.00% to 2.75% and/or prime plus 0.75% to 1.50%. The interest rate matrix is based on the Company's excess availability under the First Amended Credit Agreement. The unused line fee under the First Amended Credit Agreement is 0.375% to 0.50% of the unused line amount. In connection with the First Amended Credit Agreement, the Company recorded fees and expenses totaling approximately $0.8 million, which were added to the $0.2 million of remaining debt refinancing fees from the Amended Credit Agreement and are being amortized over the term of the new facility.

The First Amended Credit Agreement contains customary affirmative and negative covenants for asset-based loans that restrict future borrowings and certain transactions. Such covenants include restrictions and limitations on (i) sales of assets, consolidation, merger, dissolution and the issuance of the Company's capital stock, any subsidiary guarantor and any domestic subsidiary thereof, (ii) permitted encumbrances on the Company's property, any 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 covenants under the First Amended Credit Agreement are, however, generally less restrictive than the Amended Credit Agreement as the Company is no longer required to maintain a fixed charge coverage ratio of at least 1.0 to 1.0 to make certain distributions and investments so long as pro forma excess availability is at least 27.5% of the total credit facility. These distributions and investments include (i) the payment or making of any dividend, (ii) the redemption or other acquisition of any of the Company's capital stock, (iii) cash investments in joint ventures, (iv) acquisition of the property and assets or capital stock or a business unit of another entity and (v) loans or other investments to a non-borrower subsidiary. The First Amended Credit Agreement requires the Company to maintain a trailing twelve month fixed charge coverage ratio of at least 1.0 to 1.0 should borrowing availability decrease below 15% of the total credit facility. There are no capital expenditure limitations under the First Amended Credit Agreement.

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.

Forward-Looking Statements

Forward-looking statements are those that do not relate solely to historical fact. 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. 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 phrases of similar meaning. Readers of this report should not rely solely on the forward-looking statements and should consider all risks and uncertainties throughout this report as well as those discussed under "Item 1A. Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 2010. Factors that may cause actual results to differ from expectations include:

- 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.

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.

Item 3. Quantitative and Qualitative Disclosures 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 various borrowing activities. The majority of the Company's borrowings are in long-term fixed rate bonds; however the Company does incur interest on its short-term working capital borrowings under its senior secured asset-based credit facility at rates of LIBOR plus 2.00% to 2.75% and/or prime plus 0.75% to 1.50%. As of December 26, 2010, the Company had no borrowings and had a borrowing availability of $77.9 million under its revolving credit facility. Therefore, the market rate risk associated with a 100 basis point change in interest rates would not be material to the Company at the present time.

Currency Exchange Rate Risk: The Company accounts for derivative contracts and hedging activities at fair value. Changes in the fair value of derivative contracts are recorded in the line item Other operating (income) expense, net in the Condensed Consolidated Statements of Operations. 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 f inancial institutions.

Currency forward contracts are used as economic hedges for the exposure for sales in foreign currencies based on specific sales made to customers. Generally, approximately 60% to 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 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 machinery and inventory purchases. Generally up to 5% of inventory purchases made by the Company's Brazilian subsidiary are covered by forward contracts although 100% of the cost may be covered by individual contracts in certain instan ces. As of December 26, 2010, the latest maturity date for all outstanding sales and purchase foreign currency forward contracts is March 2011.

The Company has adopted the guidance issued by the Financial Accounting Standards Board ("FASB") which established a framework for measuring and disclosing fair value measurements related to financial and non-financial assets. There is a common definition of fair value used and 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 (amounts in thousands):

	December 26, 2010 Level 2	June 27, 2010 Level 2
Foreign currency purchase contracts:		
Notional amount	$ 829	$ 2,826
Fair value	844	2,873
Net unrealized gain	$ (15)	$ (47)
Foreign currency sales contracts:		
Notional amount	$ 1,015	$ 1,231
Fair value	1,042	1,217
Net unrealized (loss) gain	$ (27)	$ 14

The fair values of the foreign exchange forward contracts at the respective quarter-end dates are based on discounted quarter-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 Condensed Consolidated Statements of Operations, including transactions that were hedged and those unrelated to hedging, was a pre-tax gain of $0.1 million for the quarters ended December 26, 2010 and December 27, 2009, respectively. For the six-month periods ended December 26, 2010 and December 27, 2009, the total impact of foreign currency related items resulted in a pre-tax loss of $0.3 million and a pre-tax gain of $0.1 million, respectively.

The Company's financial assets include cash and cash equivalents, net receivables, accounts payable, currency forward contracts, and notes payable. The cash and cash equivalents, net receivables, and accounts payable approximate fair value due to their short maturities. The Company calculates the fair value of its 2014 notes based on the traded price of the 2014 notes on the latest trade date prior to its period end. These are considered Level 1 inputs in the fair value hierarchy.

The carrying values and approximate fair values of the Company's financial assets and liabilities excluding the currency forward contracts discussed above as of December 26, 2010 and June 27, 2010 were as follows (amounts in thousands):

	December 26, 2010		June 27, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	$ 33,185	$ 33,185	$ 42,691	$ 42,691
Receivables, net	82,015	82,015	91,243	91,243
Liabilities:				
Accounts payable	39,779	39,779	40,662	40,662
Notes payable	163,722	170,476	178,722	184,084

Inflation and Other Risks: The inflation rate in most countries in which 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 and tariffs and tax laws. The degree of impact and the frequency of these events cannot be predicted.

Item 4. Controls and Procedures

As of December 26, 2010, an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, as amended) was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on that evaluation, the Company's CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

There are no pending legal proceedings, other than ordinary routine litigation incidental to the Company's business, to which the Company is a party or of which any of its property is the subject.

Item 1A. Risk Factors

The Company's new debt reduction strategy will result in the Company maintaining larger balances outstanding under its First Amended Credit Agreement and decrease the Company's excess borrowing availability, which could adversely affect the Company's financial condition and prevent it from fulfilling its obligations under its debt agreements.

On January 11, 2011, the Company announced that it was calling for the redemption of $30.0 million of the 2014 notes at a redemption price of 105.75% of the principal amount of the redeemed notes (the "Redemption") to be effective on February 16, 2011. The Company plans to finance the Redemption through a combination of internally generated cash and borrowings under the First Amended Credit Agreement. On an ongoing basis, the Company anticipates utilizing its liquidity to continue to redeem portions of its 2014 notes incrementally through a combination of internally generated cash and borrowings under its First Amended Credit Agreement. The Company expects to maintain a continuous balance outstanding under its revolving credit facility and hedge a substantial amount of the interest rate risk in order to ensure its interest savings as it executes this debt reduction strategy.

The Company's First Amended Credit Agreement requires the Company to meet a minimum fixed charge coverage ratio test if borrowing capacity is less than 15% of the total credit facility. The consummation of the Redemption and implementation of the debt reduction strategy is anticipated to result in the Company maintaining reduced levels of excess availability under the First Amended Credit Agreement before the fixed charge coverage ratio test applies. After completion of the Redemption, the Company's availability under the First Amended Credit Agreement is anticipated to decrease to approximately $47.9 million, or 47.9% of the total credit facility. If the Company's availability under the First Amended Credit Agreement falls below 15%, it may not be able to maintain the required fixed charge coverage ratio. Additionally, the First Amended Credit Agreement restricts the Company's ability to make certain distributions and investments should its borrowing capacity decrease to below 27.5% of the total credit facility. These restrictions could limit the Company's ability to plan for or react to market conditions or meet its capital needs. The Company may not be granted waivers or amendments to its First Amended Credit Agreement if for any reason the Company is unable to meet its requirements, or the Company may not be able to refinance its debt on terms acceptable to the Company, or at all.

Any of the foregoing could have a material adverse effect on the Company's business, financial condition, results of operations, prospects and ability to satisfy the Company's obligations under its debt agreements.

Other than the risk factor discussed above, there are no other material changes to the Company's risk factors set forth under "Part 1A. Risk Factors" in its Annual Report on Form 10-K for the fiscal year ended June 27, 2010.

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

Items 2(a) and (b) are not applicable.

(c) The following table summarizes the Company's repurchases of its common stock during the quarter ended December 26, 2010. All share amounts have been retroactively adjusted to give effect to the 1-for-3 reverse stock split.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may Yet Be Purchased Under the Plans or Programs (1)
9/27/10 – 10/26/10	—	—	—	2,269,080
10/27/10 – 11/26/10	—	—	—	2,269,080
11/27/10 – 12/26/10	—	—	—	2,269,080
Total	—	—	—	

(1) Effective July 26, 2000, the Board increased the remaining authorization to repurchase up to 3.3 million shares of the Company's common stock, of which approximately 1.0 million shares were subsequently repurchased. The repurchase program was suspended in November 2003 and the Company has no immediate plans to reinstitute the program. There is remaining authority for the Company to repurchase approximately 2.3 million shares of its common stock under the repurchase plan. The repurchase plan has no stated expiration or termination date. All share amounts and computations using such amounts have been retroactively adjusted to reflect the November 3, 2010 1-for-3 reverse stock split.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. [Removed and Reserved.]

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Number	Description
3.1	Certificate of Amendment to Restated Certificate of Incorporation of Unifi, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 3, 2010).
4.1	Second Amendment to Amended and Restated Credit Agreement, Amended and Restated Security Agreement and Pledge Agreement, dated as of January 18, 2011, among Unifi, Inc., the subsidiaries of Unifi, Inc. from time to time party to the agreement, each lender from time to time party to the agreement and Bank of America N.A. as Administrative Agent.
10.1	Form of Restricted Stock Unit Agreement for restricted stock units granted under the 2008 Unifi, Inc. Long-Term Incentive Plan.
10.2	Unifi, Inc. Director Deferred Compensation Plan, dated as of December 14, 2010.
10.3	Third Amendment to Sales and Service Agreement, executed on December 20, 2010, by Unifi Manufacturing, Inc. and Dillon Yarn Corporation. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 20, 2010).
31.1	Chief Executive Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

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

UNIFI, INC.

Date: February 4, 2011

/s/ RONALD L. SMITH

Ronald L. Smith
Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer and Duly Authorized Officer)

Exhibit 4.1

SECOND AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

This SECOND AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment"), dated as of January 18, 2011, among UNIFI, INC., a New York corporation (the "Parent"), the subsidiaries of the Parent from time to time party to the Credit Agreement referred to below (the "Subsidiaries"; and together with the Parent, the "Borrowers"), each lender from time to time party to the Credit Agreement referred to below (the "Lenders"), and BANK O F AMERICA, N.A., as Administrative Agent (in such capacity, the "Agent").

RECITALS

A. The Borrowers, the Lenders, and the Agent are party to an Amended and Restated Credit Agreement dated as of May 26, 2006 (as amended by that certain First Amendment to Amended and Restated Credit Agreement, Amended and Restated Security Agreement and Pledge Agreement dated as of September 9, 2010, and as further amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), pursuant to which the Agent and the Lenders have extended certain credit facilities to the Borrowers.

B. The Borrowers have requested that the Agent and the Lenders agree to certain amendments with respect to the Credit Agreement, and subject to the terms and conditions set forth herein, the Agent and each of the Lenders have agreed to grant such requests of the Borrowers.

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein (including, without limitation, in the introductory paragraph and the statement of purpose hereto) shall have the meanings, if any, assigned to such terms in the Credit Agreement (as amended by this Agreement).

2. Interpretation. The rules of interpretation set forth in Section 14.22 of the Credit Agreement shall be applicable to this Amendment and are incorporated herein by this reference.

3. Credit Agreement Amendments. Subject to and in accordance with the terms and conditions set forth herein, and effective on and after the Effective Date (as defined in Section 4 below), the Credit Agreement is hereby amended in accordance with this Section 3. Except as so amended, the Credit Agreement and all other Loan Documents shall continue in full force and effect.

(a) Amendment to Section 7.12. Section 7.12(iii) of the Credit Agreement is hereby amended and restated in its entirety as follows:

"(iii) Guaranties of the Senior Secured Notes and any Refinancing Indebtedness in respect thereof".

(b) Amendment to Section 7.29. Section 7.29(a) of the Credit Agreement is hereby amended by adding the following new clause after the phrase “Senior Secured Notes Indenture” as it appears in such clause (a):

“or any indenture relating to any Refinancing Indebtedness of the Senior Secured Notes,”

4. Conditions to Effectiveness. Upon the satisfaction of each of the following conditions, this Agreement shall be deemed to be effective (the date such conditions are satisfied, the “Effective Date”):

(a) the Agent shall have received counterparts of this Amendment executed by the Agent, the Lenders and the Borrowers and the Borrowers shall have performed and complied with all covenants, agreements and conditions contained in this Amendment, the Credit Agreement and the other Loan Documents which are required to be performed or complied with by the Borrowers before or on such Effective Date;

(b) the Borrowers shall have paid all fees and expenses of the Agent and the Attorney Costs incurred in connection with this Amendment or any of the Loan Documents and the transactions contemplated hereby or thereby; and

(c) the Borrowers shall have notified the Senior Secured Notes Collateral Agent and the Senior Secured Notes Trustee that the parties hereto are entering into this Amendment.

Execution and delivery to the Agent by a Lender of a counterpart of this Amendment shall be deemed confirmation by such Lender that (i) all conditions precedent herein have been fulfilled to the satisfaction of such Lender, (ii) the decision of such Lender to execute and deliver to the Agent an executed counterpart of this Amendment was made by such Lender independently and without reliance on the Agent or any other Lender as to the satisfaction of any condition precedent set forth herein, and (iii) all documents sent to such Lender for approval consent, or satisfaction were acceptable to such Lender.

5. Effect of the Agreement. Except as expressly provided herein, the Credit Agreement and the other Loan Documents shall remain unmodified and in full force and effect. Except as expressly set forth herein, this Amendment shall not be deemed (a) to be a waiver of, or consent to, a modification or amendment of, any other term or condition of the Credit Agreement or any other Loan Document, (b) to prejudice any other right or rights which the Agent or the Lenders may now have or may have in the future under or in connection with the Credit Agreement, or the other Loan Documents or any of the instruments or agreements referred to therein, as the same may be amended, res tated, supplemented or otherwise modified from time to time, (c) to be a commitment or any other undertaking or expression of any willingness to engage in any further discussion with the Borrowers or any other Person with respect to any waiver, amendment, modification or any other change to the Credit Agreement or the Loan Documents or any rights or remedies arising in favor of the Lenders or the Agent, or any of them, under or with respect to any such documents or (d) to be a waiver of, or consent to or a modification or amendment of, any other term or condition of any other agreement by and among the Borrowers, on the one hand, and the Agent or any other Lender, on the other hand.

6. Representations and Warranties. Each Borrower hereby represents and warrants to the Agent and the Lenders as follows:

(a) After giving effect to this Amendment, no Default has occurred and is continuing.

(b) The execution, delivery and performance by each Borrower of this Amendment has been duly authorized by all necessary corporate and other action and does not and will not require any registration with, consent or approval of, or notice to or action by, any Person (including any Governmental Authority) in order to be effective and enforceable.

(c) The Amendment, together with the other Loan Documents and the Credit Agreement constitute the legal, valid and binding obligations of each Borrower, as applicable, and are enforceable against each such Person in accordance with their respective terms, without defense, counterclaim or offset.

(d) All representations and warranties of the Borrowers contained in Article 6 of the Credit Agreement are true and correct on and as of the Effective Date, except to the extent that any such representation and warranty specifically relates to an earlier date.

(e) Each Borrower is entering into this Amendment on the basis of its own investigation and for its own reasons, without reliance upon the Agent, the Lenders or any other Person.

7. Miscellaneous.

(a) This Amendment shall be binding upon and inure to the benefit of the parties hereto and thereto and their respective successors and assigns. No third party beneficiaries are intended in connection with this Amendment.

(b) THIS AMENDMENT IS SUBJECT TO THE PROVISIONS OF SECTIONS 14.3 AND 14.4 OF THE CREDIT AGREEMENT RELATING TO GOVERNING LAW, VENUE AND WAIVER OF RIGHT TO TRIAL BY JURY, THE PROVISIONS OF WHICH ARE BY THIS REFERENCE INCORPORATED HEREIN IN FULL.

(c) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Transmission of signatures of any party by facsimile shall for all purposes be deemed the delivery of original, executed counterparts thereof and the Agent is hereby authorized to make sufficient photocopies thereof to assemble complete counterparty documents.

(d) This Amendment, together with the other Loan Documents and the Credit Agreement, contains the entire and exclusive agreement of the parties hereto with reference to the matters discussed herein and therein. This Amendment supersedes all prior drafts and communications with respect thereto. This Amendment may not be amended except in accordance with the provisions of Section 11.1 of the Credit Agreement.

(e) If any term or provision of this Amendment shall be deemed prohibited by or invalid under any applicable law, such provision shall be invalidated without affecting the remaining provisions of this Amendment or the Credit Agreement, respectively.

(f) Each Borrower covenants to pay to or reimburse the Agent, upon demand, for all reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation, negotiation, execution and delivery of this Amendment.

(g) This Amendment shall constitute a "Loan Document" under and as defined in the Credit Agreement.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

UNIFI, INC., a New York corporation

By: /s/ Charles F. McCoy
Name: Charles F. McCoy
Title: V.P., Secretary and General Counsel

UNIFI MANUFACTURING, INC.,
a North Carolina corporation

By: /s/ Charles F. McCoy
Name: Charles F. McCoy
Title: V.P., Secretary and General Counsel

UNIFI TEXTURED POLYESTER, LLC,
a North Carolina limited liability company

By: /s/ Charles F. McCoy
Name: Charles F. McCoy
Title: V.P., Secretary and General Counsel

UNIMATRIX AMERICAS, LLC,
a North Carolina limited liability company

By: /s/ Charles F. McCoy
Name: Charles F. McCoy
Title: V.P., Secretary and General Counsel

UNIFI SALES & DISTRIBUTION, INC.,
a North Carolina corporation

By: /s/ Charles F. McCoy
Name: Charles F. McCoy
Title: V.P., Secretary and General Counsel

[Signature Pages Continue]

SPANCO INTERNATIONAL, INC.,
a North Carolina corporation

By: /s/   Charles F. McCoy
Name: Charles F. McCoy
Title: V.P., Secretary and General Counsel

UNIFI EQUIPMENT LEASING, LLC,
a North Carolina limited liability company

By: /s/   Charles F. McCoy
Name: Charles F. McCoy
Title: V.P., Secretary and General Counsel

BANK OF AMERICA, N.A., as Administrative Agent

By: /s/ Andrew A. Doherty
Name: Andrew A. Doherty
Title: Senior Vice President

BANK OF AMERICA, N.A., as a Lender

By: /s/ Andrew A. Doherty
Name: Andrew A. Doherty
Title: Senior Vice President

WELLS FARGO CAPITAL FINANCE, INC., as a Lender

By: /s/ John Williammee, Jr.
Name: John Williammee, Jr.
Title: Vice President

Exhibit 10.1

RESTRICTED STOCK UNIT AGREEMENT
for
Non-Employee Directors

RESTRICTED STOCK UNIT AGREEMENT (this "Agreement"), dated as of the Grant Date, by and between the Grantee and Unifi, Inc. (the "Corporation").

W I T N E S S E T H:

WHEREAS, the Corporation has adopted the 2008 Unifi, Inc. Long-Term Incentive Plan (the "Plan"); and

WHEREAS, the Board of Directors of the Corporation (the "Board") has determined that it is desirable and in the best interests of the Corporation to grant to the Grantee restricted stock units ("RSUs") as an incentive for the Grantee to advance the interests of the Corporation;

NOW, THEREFORE, the parties agree as follows:

1. Notice of Grant; Incorporation of Plan. Pursuant to the Plan and subject to the terms and conditions set forth herein and therein, the Corporation hereby grants to the Grantee the number of RSUs indicated on the Notice of Grant attached hereto as Annex A, which Notice of Grant is incorporated by reference herein. The Plan is incorporated by reference and made a part of this Agreement, and this Agreement shall be subject to the terms of the Plan, as the Plan may be amended from time to time, provided that any such amendment of the Plan must be made in accordance with Section VI of the Plan. The RSUs granted herein constitute a Stock Award within the meaning o f the Plan. Unless otherwise defined herein, capitalized terms used in this Agreement and the attached annexes shall have the meanings ascribed to them in the Plan.

2. Terms of Restricted Stock Units. The RSUs granted under this Agreement are subject to the following terms, conditions and restrictions:

(a) No Ownership. The Grantee shall not possess any incidents of ownership (including, without limitation, dividend and voting rights) in shares of the Stock in respect of the RSUs until such RSUs have vested and been distributed to the Grantee in the form of shares of Stock.

(b) Transfer of RSUs. Except as provided in this Section 2(b), the RSUs and any interest therein may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except by will or the laws of descent and distribution and subject to the conditions set forth in the Plan and this Agreement. Any attempt to transfer RSUs in contravention of this section is void ab initio. RSUs shall not be subject to execution, attachment or other process.

(c) Vesting and Conversion of RSUs. If the Grantee remains in continuous service as a member of the Corporation's Board from the Date of Grant to ___________ (the "Vesting Date"), the RSUs will become fully vested. Upon the Grantee's Separation from Service (as defined below), the vested RSUs shall be converted into an equivalent number of shares of Stock, and such shares of Stock will be distributed to the Grantee in a single lump sum payment within 30 days following Grantee's Separation from Service. However, the Grantee may irrevocably elect on or before ____________ elect to instead receive payment of Stock under the Grant ee's vested RSUs in substantially equal annual installments over a period of up to five years following the Grantee's Separation from Service. Such an election must be made by completing and submitting to the Corporation on or before ___________ a Deferral Election Form, as attached hereto as Annex B. Upon distribution of the shares of Stock in respect of the RSUs, the Corporation shall issue to the Grantee or the Grantee's personal representative a stock certificate representing such shares of Stock, free of any restrictions.

(i) If prior to the Vesting Date, Grantee dies or has a Separation from Service as a result of Disability (as defined below), all RSUs shall become fully vested, converted into an equivalent number of shares of Stock and distributed to the Grantee in a single lump sum payment within 30 days following the Grantee's death or Separation from Service as a result of Disability (as applicable), without regard to any payment deferral election in effect under Deferral Election Form.

(ii) If prior to the Vesting Date, Grantee has a Separation from Service for any other reason, then the Grantee shall forfeit the RSUs and shall not be entitled to receive any shares of Stock under this Agreement.

(iii) Change in Control. In the event of a Change in Control (as defined below), all RSUs shall become fully vested, be converted into shares of Stock and be immediately distributed to the Grantee in a single lump sum payment within 30 days following the Change in Control, without regard to any payment deferral election in effect under Deferral Election Form.

(iv) "Affiliate" of any Person shall mean any other Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such first Person. The term "Control" shall have the meaning specified in Rule 12b-2 under the Securities Exchange Act of 1934 (the "Exchange Act").

(v) "Beneficial Owner" (and variants thereof) shall have the meaning given in Rule 13d-3 promulgated under the Exchange Act and, only to the extent such meaning is more restrictive than the meaning given in Rule 13d-3, the meaning determined in accordance with Section 318(a) of the Code.

(vi) "Change in Control" shall mean any of the following events:

(I) any Person is or becomes the Beneficial Owner, directly or indirectly, of more than 50% of either (A) the combined fair market value of the then outstanding stock of the Corporation (the "Total Fair Market Value") or (B) the combined voting power of the then outstanding securities entitled to vote generally in the election of directors of the Corporation (the "Total Voting Power"); excluding, however, the following: (a) any acquisition by the Corporation or any of its Controlled Affiliates, (b) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any of its Controlled Affiliates, (c) any Person who becomes such a Beneficial Owner in connection with a transaction described in the exclusion within paragraph (IV) below and (d) any acquisition of additional stock or securities by a Person who owns more than 50% of the Total Fair Market Value or Total Voting Power of the Corporation immediately prior to such acquisition; or

(II) any Person is or becomes the Beneficial Owner, directly or Indirectly, of securities of the Corporation that, together with any securities acquired directly or indirectly by such Person within the immediately preceding twelve-consecutive month period, represent 30% or more of the Total Voting Power of the Corporation; excluding, however, any acquisition described in subclauses (a) through (d) of subsection (I) above; or

(III) a change in the composition of the Board such that the individuals who, as of the effective date of this Agreement, constitute the Board (such individuals shall be hereinafter referred to as the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this definition, that any individual who becomes a director subsequent to such effective date, whose election, or nomination for election by the Corporation's stockholders, was made or approved by a vote of at least a majority of the Incumbent Directors (or directors whose election or nomination for election was previously so approved) shall be considered an Incumbent Director; but, provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulati on 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person or legal entity other than the Board shall not be considered an Incumbent Director; provided finally, however, that, as of any time, any member of the Board who has been a director for at least twelve consecutive months immediately prior to such time shall be considered an Incumbent Director for purposes of this definition, other than for the purpose of the first proviso of this definition; or

(IV) there is consummated a merger or consolidation of the Corporation or any direct or indirect subsidiary of the Corporation or a sale or other disposition of the assets of the Corporation that have a total gross fair market value equal to or greater than 40% of the total gross fair market value of the assets of the Corporation immediately prior to such acquisition ("Corporate Transaction"); excluding, however, such a Corporate Transaction pursuant to which all or substantially all of the individuals and entities who are the Beneficial Owners, respectively, of the outstanding Stock of the Corporation and Total Voting Power immediately prior to such Corporate Transaction will Beneficially Own, directly or indirectly, more than 50%, respectively, of the outstanding Stock and the combined voting power of the then outstanding Stock and the combined voting power of the then outstanding securities entit led to vote generally in the election of directors of the company resulting from such Corporate Transaction (including, without limitation, a company which as a result of such transaction owns the Corporation or all or substantially all of the Corporation's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Corporate Transaction of the Outstanding Stock and Total Voting Power, as the case may be.

provided, however, that notwithstanding anything to the contrary in subsections (I) through (IV) above, an event which does not constitute a change in the ownership of the Corporation, a change in the effective control of the Corporation, or a change in the ownership of a substantial portion of the assets of the Corporation, each as defined in Section 1.409A-3(i)(5) of the Treasury Regulations (or any successor provision), shall not be considered a Change in Control for purposes of this Agreement.

(vii) “Disability” shall, for all purposes of this Agreement, mean a "disability" (A) that renders the Grantee unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; (B) that results in the Grantee, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan of the Corporation; or (C) that results in the Grantee being deemed totally disabled by the Social Security Administration. All determinations of Disability shall be confirmed by the Committee.

(viii) “Person” shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) of the Exchange Act and, only to the extent such meaning is more restrictive than the meaning given in Section 3(a)(9) of the Exchange Act (as modified as above), the meaning determined in accordance with Sections 1.409A-3(i)(5)(v)(B), (vi)(D) or (vii)(C) of the Treasury Regulations (or any successor provisions), as applicable.

(ix) “Separation from Service” means termination of services as member of the Board for any reason, and shall be determined in accordance with applicable standards established pursuant to Section 409A of the Code and corresponding Treasury Regulations.

(x) “Treasury Regulations” means the final, temporary or proposed regulations issued by the Treasury Department and/or Internal Revenue Service as modified in Title 26 of The United States Code of Federal Regulations. Any references made in this Agreement to specific Treasury Regulations shall also refer to any successor or replacement regulations thereto.

3. Equitable Adjustment. The aggregate number of shares of Stock subject to the RSUs shall be proportionately adjusted for any increase or decrease in the number of issued shares of Stock resulting from a subdivision or consolidation of shares or other capital adjustment, or the payment of a stock dividend or other increase or decrease in such shares, effected without the receipt of consideration by the Corporation, or other change in corporate or capital structure. The Committee shall also make the foregoing changes and any other changes, including changes in the classes of securities available, to the extent reasonably necessary or desirable to preserve the intended ben efits under this Agreement in the event of any other reorganization, recapitalization, merger, consolidation, spin-off, extraordinary dividend or other distribution or similar transaction involving the Corporation.

4. Taxes. The Grantee shall pay to the Corporation promptly upon request any taxes the Corporation reasonably determines it is required to withhold under applicable tax laws with respect to the RSUs. Such payment shall be made as provided in Section 4.4 of the Plan.

5. No Right to Continued Service as Director. Nothing contained herein shall be deemed to confer upon the Grantee any right to continue to serve as a member of the Board.

6. Miscellaneous.

(a) Governing Law/Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina without reference to principles of conflict of laws.

(b) Resolution of Disputes. Any disputes arising under or in connection with this Agreement shall be resolved by binding arbitration before a single arbitrator, to be held in North Carolina in accordance with the commercial rules and procedures of the American Arbitration Association. Judgment upon the award rendered by the arbitrator shall be final and subject to appeal only to the extent permitted by law. Each party shall bear such party's own expenses incurred in connection with any arbitration; provided, however, that the cost of the arbitr ation, including without limitation, reasonable attorneys' fees of the Grantee, shall be borne by the Corporation in the event the Grantee is the prevailing party in the arbitration. Anything to the contrary notwithstanding, each party hereto has the right to proceed with a court action for injunctive relief or relief from violations of law not within the jurisdiction of an arbitrator. If any costs of the arbitration borne by the Corporation in accordance herewith would constitute compensation to the Grantee for Federal tax purposes, then the amount of any such costs reimbursed to the Grantee in one taxable year shall not affect the amount of such costs reimbursable to the Grantee in any other taxable year, the Grantee's right to reimbursement of any such costs shall not be subject to liquidation or exchange for any other benefit, and the reimbursement of any such costs incurred by the Grantee shall be made as soon as administratively practicable, but in any event within ten (10) days, after the date the Grantee is determined to be the prevailing party in the arbitration. The Grantee shall be responsible for submitting claims for reimbursement in a timely manner to enable payment within the timeframe provided herein.

(c) Notices. Any notice required or permitted under this Agreement shall be deemed given when delivered personally, or when deposited in a United States Post Office, postage prepaid, addressed, as appropriate, to the Grantee at the last address specified in Grantee's records with the Corporation, or such other address as the Grantee may designate in writing to the Corporation, or to the Corporation, Attention: General Counsel, or such other address as the Corporation may designate in writing to the Grantee.

(d) Failure to Enforce Not a Waiver. The failure of either party hereto to enforce at any time any provision of this Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

(e) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original but all of which together shall represent one and the same agreement.

(f) Modifications; Entire Agreement; Headings. This Agreement cannot be changed or terminated orally. This Agreement and the Plan contain the entire agreement between the parties relating to the subject matter hereof. The section headings herein are intended for reference only and shall not affect the interpretation hereof.

7. Section 409A.

(a) It is intended that this Agreement comply in all respects with the requirements of Sections 409A(a)(2) through (4) of the Code and applicable Treasury Regulations and other generally applicable guidance issued thereunder (collectively, the “Applicable Regulations”), and this Agreement shall be interpreted for all purposes in accordance with this intent.

(b) Notwithstanding any term or provision of this Restricted Stock Unit Agreement (including any term or provision of the Plan incorporated herein by reference), the parties hereto agree that, from time to time, the Corporation may, without prior notice to or consent of the Grantee, amend this Restricted Stock Unit Agreement to the extent determined by the Corporation, in the exercise of its discretion in good faith, to be necessary or advisable to prevent the inclusion in the Grantee’s gross income pursuant to the Applicable Regulations of any compensation intended to be deferred hereunder. The Corporation shall notify the Grantee as soon as reasonably practicable of any such amendment affecting the Grantee.

(c) In the event that the amounts payable under this Agreement are subject to any taxes, penalties or interest under the Applicable Regulations, the Grantee shall be solely liable for the payment of any such taxes, penalties or interest.

(d) Except as otherwise specifically provided herein, the time and method for payment of the RSUs as provided in Section 2 and the Deferral Election Form shall not be accelerated or delayed for any reason, unless to the extent necessary to comply with, or as may be permitted under, the Applicable Regulations.

Annex A

NOTICE OF GRANT
RESTRICTED STOCK UNIT AGREEMENT
2008 UNIFI, INC. LONG-TERM INCENTIVE PLAN

The following member of the Board of Directors of Unifi, Inc. has been granted Restricted Stock Units in accordance with the terms of this Notice of Grant and the Restricted Stock Unit Agreement to which this Notice of Grant is attached.

The terms below shall have the following meanings when used in the Restricted Stock Unit Agreement.

Grantee	
Address of Grantee	
Grant Date	
Aggregate Number of RSUs Granted	

IN WITNESS WHEREOF, the parties hereby agree to the terms of this Notice of Grant and the Restricted Stock Unit Agreement to which this Notice of Grant is attached and execute this Notice of Grant and Restricted Stock Unit Agreement.

____
Grantee

UNIFI, INC.

By: ______________________________

<u>Annex B</u>

<u>DEFERRAL ELECTION INSTRUCTIONS AND FORM</u>

RESTRICTED STOCK UNITS DEFERRAL ELECTION INSTRUCTIONS

You have been granted Restricted Stock Units ("RSUs") under a Restricted Stock Unit Award Agreement dated ___________ (the "Award"). Unless otherwise defined herein or in the attached Deferral Election Form, capitalized terms have the meanings given them in the Award.

As a general rule, your vested RSUs will be converted to shares of Stock and those shares will be paid to you in a single lump sum payment within 30 days following your Separation from Service. However, under Section 2(c) of the Agreement, you may elect to instead receive payment of the Stock payable under your vested RSUs in substantially equal annual installments over a period of up to five years following your Separation from Service. Such an election must be made by completing and submitting to the Corporation on or before ___________ the attached Deferral Election Form.

<u>However, if you become vested in your Award prior to the Vesting Date due to your death, Separation from Service due to Disability or Change in Control of the Corporation, you will receive your shares of Stock in a single lump-sum payment within 30 days following the date of your Separation from Service or Change in Control, regardless of any deferral election that you may have made.</u>

There may be advantages and disadvantages to making a deferral election, depending on your individual situation and future events, including future tax rates. You should consider your particular tax and financial situation before making a deferral election. We encourage you to consult your tax or financial planning advisor in making a decision.

Payment of RSUs is made in shares of the Corporation's Stock. You are taxable at ordinary income rates on the value of the shares of the Corporation's Stock at the time of payment. You can sell the shares at that time, subject to any securities law restrictions, or have the Corporation withhold an appropriate number of shares to satisfy your tax obligation.

<u>FOR A DEFERRAL ELECTION TO BE EFFECTIVE</u>
<u>YOU MUST COMPLETE AND RETURN THE ATTACHED FORM</u>
<u>NO LATER THAN ____________ TO ________________</u>

2008 UNIFI, INC. LONG-TERM INCENTIVE PLAN

RESTRICTED STOCK UNITS DEFERRAL ELECTION FORM

For Deferral of _____________ Restricted Stock Unit Agreement

Name of Grantee: _________________________________

DEFERRAL ELECTION

Complete the information below if you wish to receive your shares of Stock in a time and form other than a single lump-sum payment within 30 days following your Separation from Service. All capitalized terms not defined herein have the meanings assigned to them in your _____________ Restricted Stock Unit Agreement.

<u>**PAYMENT ELECTION**</u>: I elect to receive payment of my shares of Stock pursuant to my ____________ Restricted Stock Unit Agreement paid in ____ (<u>***maximum of 5***</u>) equal annual installments commencing within 30 days of my Separation from Service from the Corporation with each subsequent payment to be paid on the anniversary of my Separation from Service.

I understand and acknowledge that:

- ***In the event I become vested in my RSUs prior to ___________ due to my death, Separation from Service due to my Disability or a Change in Control of the Corporation, my shares of Stock will be paid to me in a single lump-sum payment within 30 days following my death, Separation from Service or the date the Corporation experiences a Change in Control.***

- ***My deferrals will be subject to all requirements of Section 409A of the Internal Revenue Code and provisions of the Plan as amended to comply with Section 409A.***

I understand that this election is irrevocable. I also understand that I am making the elections contained herein in accordance with the terms of the Plan and that the terms of the Plan will be used to resolve any ambiguity or inconsistency that should arise in connection with the making of these elections.

_____________________________ ___________________________

Grantee Date

Exhibit 10.2

UNIFI, INC.

DIRECTOR DEFERRED COMPENSATION PLAN

TABLE OF CONTENTS

ARTICLE I--	INTRODUCTION	1
ARTICLE II--	DEFINITIONS	1
2.01	Account:	1
2.02	Act:	1
2.03	Affiliate:	1
2.04	Beneficial Owner:	1
2.05	Beneficiary:	2
2.06	Board:	2
2.07	Calendar Year:	2
2.08	Change in Control:	2
2.09	Code:	3
2.10	Common Stock:	3
2.11	Company:	3
2.12	Deferral Subaccount:	3
2.13	Director:	4
2.14	Director Compensation:	4
2.15	Disability:	4
2.16	Distribution Valuation Date:	4
2.17	Election Form:	4
2.18	Eligible Director:	5
2.19	ERISA:	5
2.20	Fair Market Value:	5
2.21	Key Employee:	5
2.22	Participant:	6
2.23	Person:	6
2.24	Plan:	6
2.25	Plan Administrator:	6
2.26	Plan Year:	7
2.27	Retainer:	7
2.28	Second Look Election:	7
2.29	Section 409A:	7

2.30	Separation from Service:	7
2.31	Specific Payment Date:	7
2.32	Treasury Regulations:	8
2.33	Unforeseeable Emergency:	8
2.34	Unifi, Inc. Organization:	8
2.35	Valuation Date:	8
ARTICLE III--	ELIGIBILITY AND PARTICIPATION	9
3.01	Eligibility to Participate:	9
3.02	Termination of Eligibility to Defer:	9
3.03	Termination of Participation:	9
ARTICLE IV--	DEFERRAL OF COMPENSATION	9
4.01	Deferral Election:	9
4.02	Time and Manner of Deferral Election:	10
4.03	Period of Deferral; Form of Payment:	11
4.04	Second Look Election:	11
ARTICLE V--	INTERESTS OF PARTICIPANTS	13
5.01	Accounting for Participants’ Interests:	13
5.02	Phantom Investment of Account:	14
5.03	Vesting of a Participant’s Account:	15
ARTICLE VI--	DISTRIBUTIONS	15
6.01	General:	15
6.02	Distributions Based on a Specific Payment Date:	16
6.03	Distributions on Account of a Separation from Service:	17
6.04	Distributions on Account of Death:	18
6.05	Distributions on Account of Unforeseeable Emergency:	19
6.06	Distributions on Account of a Change in Control:	19
6.07	Valuation:	20
6.08	Actual Payment Date:	20
ARTICLE VII--	PLAN ADMINISTRATION	20
7.01	Plan Administrator:	20
7.02	Action:	21
7.03	Powers of the Plan Administrator:	21
7.04	Compensation, Indemnity and Liability:	22

7.05	Withholding:	22
7.06	Conformance with Section 409A:	23
ARTICLE VIII--	CLAIMES PROCEDURE	23
8.01	Claims for Benefits:	23
8.02	Appeals of Denied Claims:	23
8.03	Special Claims Procedures for Disability Determinations:	23
ARTICLE IX--	AMENDMENT AND TERMINATION	24
9.01	Amendment of Plan:	24
9.02	Termination of Plan:	24
ARTICLE X--	MISCELLANEOUS	24
10.01	Limitation on Participant’s Rights:	24
10.02	Unfunded Obligation of the Company:	25
10.03	Other Plans:	25
10.04	Receipt or Release:	25
10.05	Governing Law:	25
10.06	Gender, Tense and Examples:	25
10.07	Successors and Assigns; Nonalienation of Benefits:	26
10.08	Facility of Payment:	26
ARTICLE XI--	AUTHENTICATION	27

ARTICLE I--INTRODUCTION

Unifi, Inc. (the "Company") established the Unifi, Inc. Director Deferred Compensation Plan (the "Plan") to permit Eligible Directors to defer certain compensation paid to them as Directors. The Plan is effective as of December 14, 2010 (the "Effective Date").

For federal income tax purposes, the Plan is intended to be a nonqualified unfunded deferred compensation plan that is unfunded and unsecured. For purposes of ERISA, the Plan is intended to be exempt from ERISA coverage as a plan that solely benefits non-employees (or alternatively, a plan described in Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA providing benefits to a select group of management or highly compensated employees).

ARTICLE II--DEFINITIONS

When used in this Plan, the following underlined terms shall have the meanings set forth below unless a different meaning is plainly required by the context:

2.01 Account:

The account maintained for a Participant on the books of the Company to determine, from time to time, the Participant's interest under this Plan. The balance in such Account shall be determined by the Plan Administrator. Each Participant's Account shall consist of at least one Deferral Subaccount for each separate deferral under Section 4.01. The Plan Administrator may also establish such additional Deferral Subaccounts as it deems necessary for the proper administration of the Plan. The Plan Administrator may also combine Deferral Subaccounts to the extent it deems separate accounts are not needed for sound recordkeeping. Where appropriate, a reference to a Participant's Account shall include a reference to each applicable Deferral Subaccount tha t has been established thereunder.

2.02 Act:

The Securities Exchange Act of 1934, as amended from time to time.

2.03 Affiliate:

Affiliate of any Person shall mean any other Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such first Person. The term "Control" shall have the meaning specified in Rule 12b-2 under the Securities Exchange Act of 1934 (the "Exchange Act").

2.04 Beneficial Owner:

Beneficial Owner (and variants thereof) shall have the meaning given in Rule 13d-3 promulgated under the Exchange Act and, only to the extent such meaning is more restrictive than the meaning given in Rule 13d-3, the meaning determined in accordance with Section 318(a) of the Code.

2.05 Beneficiary:

The person or persons (including a trust or trusts) properly designated by a Participant, as determined by the Plan Administrator, to receive the amounts in one or more of the Participant's Deferral Subaccounts in the event of the Participant's death in accordance with Section 4.02(c).

2.06 Board:

The Board of Directors of the Company.

2.07 Calendar Year:

The 12-month period beginning January 1st and ending December 31st.

2.08 Change in Control:

The occurrence of any of the following events:

(a) any Person is or becomes the Beneficial Owner, directly or indirectly, of more than 50% of either (A) the combined fair market value of the then outstanding stock of the Company (the "Total Fair Market Value") or (B) the combined voting power of the then outstanding securities entitled to vote generally in the election of directors of the Company (the "Total Voting Power"); excluding, however, the following: (i) any acquisition by the Company or any of its Controlled Affiliates, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Controlled Affiliates, (iii) any Person who becomes such a Beneficial Owner in connection with a transaction described in the exclu sion within paragraph (d) below and (iv) any acquisition of additional stock or securities by a Person who owns more than 50% of the Total Fair Market Value or Total Voting Power of the Company immediately prior to such acquisition; or

(b) any Person is or becomes the Beneficial Owner, directly or Indirectly, of securities of the Company that, together with any securities acquired directly or indirectly by such Person within the immediately preceding twelve-consecutive month period, represent 30% or more of the Total Voting Power of the Company; excluding, however, any acquisition described in subclauses (i) through (iv) of subsection (a) above; or

(c) a change in the composition of the Board such that the individuals who, as of the effective date of this Agreement, constitute the Board (such individuals shall be hereinafter referred to as the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this definition, that any individual who becomes a director subsequent to such effective date, whose election, or nomination for election by the Company's stockholders, was made or approved by a vote of at least a majority of the Incumbent Directors (or directors whose election or nomination for election was previously so approved) shall be considered an Incumbent Director; but, provided, further, that any such indivi dual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person or legal entity other than the Board shall not be considered an Incumbent Director; provided finally, however, that, as of any time, any member of the Board who has been a director for at least twelve consecutive months immediately prior to such time shall be considered an Incumbent Director for purposes of this definition, other than for the purpose of the first proviso of this definition; or

(d) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company or a sale or other disposition of the assets of the Company that have a total gross fair market value equal to or greater than 40% of the total gross fair market value of the assets of the Company immediately prior to such acquisition ("Corporate Transaction"); excluding, however, such a Corporate Transaction pursuant to which all or substantially all of the individuals and entities who are the Beneficial Owners, respectively, of the outstanding Common Stock of the Company and Total Voting Power immediately prior to such Corporate Transaction will Beneficially Own, directly or indirectly, more than 50%, respectively, of the out standing Common Stock and the combined voting power of the then outstanding Common Stock and the combined voting power of the then outstanding securities entitled to vote generally in the election of directors of the company resulting from such Corporate Transaction (including, without limitation, a company which as a result of such transaction owns the Corporation or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Corporate Transaction of the Outstanding Stock and Total Voting Power, as the case may be.

2.09 Code:

The Internal Revenue Code of 1986, as amended from time to time.

2.10 Common Stock:

The shares of common stock of the Company.

2.11 Company:

Unifi, Inc., a corporation organized and existing under the laws of the State of New York, or its successor or successors.

2.12 Deferral Subaccount:

A subaccount of a Participant's Account maintained to reflect his or her interest in the Plan attributable to each deferral (or separately tracked portion of a deferral) of Director Compensation, and earnings or losses credited to such subaccount in accordance with Section 5.01(b).

2.13 Director:

A person who is a member of the Board of Directors of the Company and who is not currently an employee of the Unifi, Inc. Organization.

2.14 Director Compensation:

The Director's Retainer.

2.15 Disability:

A Participant shall be considered to suffer from a Disability, if, in the judgment of the Plan Administrator (based on the provisions of Section 409A and any guidelines established by the Plan Administrator for this purpose), the Participant –

(a) Is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or

(b) By reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, is receiving income replacement benefits for a period of not less than 3 months under an accident and health plan of the Company.

Solely for those Participants who are otherwise eligible for Social Security, a Participant who is determined to be totally disabled by the Social Security Administration will be deemed to satisfy the requirements of Subsection (a), and a Participant who has not been determined to be totally disabled by the Social Security Administration will be deemed to not meet the requirements of Subsection (a).

2.16 Distribution Valuation Date:

Each date as specified by the Plan Administrator from time to time as of which Participant Accounts are valued for purposes of a distribution from a Participant's Account. The current Distribution Valuation Dates are March 31, June 30, September 30 and December 31. Any current Distribution Valuation Date may be changed by the Plan Administrator, provided that such change does not result in a change in when deferrals are paid out that is impermissible under Section 409A. Values are determined as of the close of a Distribution Valuation Date or, if such date is not a business day, as of the close of the preceding business day.

2.17 Election Form:

The form prescribed by the Plan Administrator on which a Participant specifies the amount of his or her Retainer to be deferred and the timing and form of his or her deferral payout, pursuant to the provisions of Article IV. An Election Form need not exist in a paper format, and it is expressly authorized that the Plan Administrator may make available for use such technologies, including voice response systems, Internet-based forms and any other electronic forms, as it deems appropriate from time to time.

2.18 Eligible Director:

The term “Eligible Director” shall have the meaning given to it in Section 3.01(b).

2.19 ERISA:

Public Law 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.20 Fair Market Value:

For purposes of converting a Participant’s deferrals to phantom Unifi, Inc. Common Stock as of any date, the Fair Market Value of such stock is the average of the high and low price on such date (or if such date is not a trading date, the first date immediately following such date that is a trading date) for Unifi, Inc. Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange, Inc., rounded to four decimal places. For purposes of determining the value of a Plan distribution, the Fair Market Value of phantom Unifi, Inc. Common Stock is determined as the closing price on the applicable Distribution Valuation Date for Unifi, Inc. Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange, Inc., rounded to four decimal plac es.

2.21 Key Employee:

The individuals identified in accordance with the principles set forth below.

(a) General. Any Participant who at any time during the applicable year is –

(1) An officer of any member of the Unifi, Inc. Organization having annual compensation greater than $130,000 (as adjusted for the applicable year under Code Section 416(i)(1));

(2) A 5-percent owner of any member of the Unifi, Inc. Organization; or

(3) A 1-percent owner of any member of the Unifi, Inc. Organization having annual compensation of more than $150,000.

For purposes of (1) above, no more than 50 employees identified in the order of their annual compensation shall be treated as officers. For purposes of this Section, annual compensation means compensation as defined in Treas. Reg. §1.415(c)-2(a), without regard to Treas. Reg. §§1.415(c)-2(d), 1.415(c)-2(e), and 1.415(c)-2(g). The Plan Administrator shall determine who is a Key Employee in accordance with Code Section 416(i) and the applicable regulations and other guidance of general applicability issued thereunder or in connection therewith (provided, that Code Section 416(i)(5) shall not apply in making such determination), and provided further that the applicable year shall be determined in accordance with Section 409A and that any modification of the foregoing definition that ap plies under Section 409A shall be taken into account.

(b) Applicable Year. The Plan Administrator shall determine Key Employees as of the last day of each calendar year (the "determination date"), based on compensation for such year, and the designation for a particular determination date shall be effective for purposes of this Plan for the twelve month period commending on April 1 of the next following calendar year (*e.g.*, the Key Employees determined by the Plan Administrator as of December 31, 2010, shall apply to the period from April 1, 2011, to March 31, 2012).

2.22 Participant:

Any Director who is qualified to participate in this Plan in accordance with Section 3.01 and who has an Account. An active Participant is one who is currently deferring under Section 4.01.

2.23 Person:

Person shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) of the Exchange Act and, only to the extent such meaning is more restrictive than the meaning given in Section 3(a)(9) of the Exchange Act (as modified as above), the meaning determined in accordance with Sections 1.409A-3(i)(5)(v)(B), (vi)(D) or (vii)(C) of the Treasury Regulations (or any successor provisions), as applicable.

2.24 Plan:

The Unifi, Inc. Director Deferred Compensation Plan.

2.25 Plan Administrator:

The Board of Directors of the Company or its delegate or delegates, which shall have the authority to administer the Plan as provided in Article VII. As of the Effective Date, the Company's Compensation Committee is delegated the responsibility for the operational administration of the Plan. In turn, the Compensation Committee has the authority to re-delegate operational responsibilities to other persons or parties. As of the Effective Date, the Compensation Committee has re-delegated operational responsibilities to the Company's Employee Benefits Committee. However, references in this document to the Plan Administrator shall be understood as referring to the Board of Directors, the Compensation Committee and those delegated by the Compensation Committee, includin g the Company's Employee Benefits Committee.

2.26 Plan Year:

The 12-consecutive month period beginning on January 1 and ending on December 31.

2.27 Retainer:

An Eligible Director's "Stock Award" (as such term is defined under the 2008 Unifi, Inc. Long-Term Incentive Plan) received as compensation for service on the Company's Board of Directors. Subject to the next sentence, the Retainer shall be limited to the amount due an Eligible Director for the discharge of his or her duties as a member of the Board of Directors of the Company, and shall be reduced for any applicable tax levies, garnishments and other legally required deductions. Notwithstanding the preceding sentence, an Eligible Director's Retainer may be reduced by an item described in the preceding sentence only to the extent such reduction does not violate Section 409A.

2.28 Second Look Election:

The term “Second Look Election” shall have the meaning given to it in Section 4.04.

2.29 Section 409A:

Code Section 409A and the applicable regulations and other guidance of general applicability that are issued thereunder.

2.30 Separation from Service:

A Participant’s separation from service as defined in Section 409A, including the rule that a Participant who is Disabled incurs a Separation from Service 29 months after the Participant is no longer actively rendering services to the Company. In the event the Participant also provides services to the Unifi, Inc. Organization other than as a Director for the Company, such other services shall not be taken into account in determining when a Separation from Service occurs to the extent permitted under Treas. Reg. § 1.409A-1(h)(5). The term may also be used as a verb (*i.e.*, “Separates from Service”) with no change in meaning.

2.31 Specific Payment Date:

A specific date selected by an Eligible Director that triggers a lump sum payment of a deferral or the start of installment payments for a deferral, as specified in Section 4.03 or 4.04. The Specific Payment Dates that are available to be selected by Eligible Directors shall be a specified anniversary following an Eligible Director’s Separation from Service, as reflected on the Election Form or the Second Look Election form that is made available by the Plan Administrator for the deferral.

2.32 Treasury Regulations:

Treasury Regulations means the final, temporary or proposed regulations issued by the Treasury Department and/or Internal Revenue Service as modified in Title 26 of The United States Code of Federal Regulations. Any references made in this Agreement to specific Treasury Regulations shall also refer to any successor or replacement regulations thereto.

2.33 Unforeseeable Emergency:

A severe financial hardship to the Participant resulting from –

(a) An illness or accident of the Participant, the Participant’s spouse, the Participant’s Beneficiary or the Participant’s dependent (as defined in Code Section 152(a) without regard to Code Sections 152(b)(1), 152(b)(2) and 152(d)(1)(B));

(b) Loss of the Participant's property due to casualty (including, the need to rebuild a home following damage to the home not otherwise covered by insurance); or

(c) Any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

The Plan Administrator shall determine the occurrence of an Unforeseeable Emergency in accordance with Treas. Reg. §1.409A-3(i)(iii) and any guidelines that may be established by the Plan Administrator.

2.34 Unifi, Inc. Organization:

The controlled group of organizations of which the Company is a part, as defined by Code section 414(b) and (c) and the regulations issued thereunder. An entity shall be considered a member of the Unifi, Inc. Organization only during the period it is one of the group of organizations described in the preceding sentence.

2.35 Valuation Date:

Each business day, as determined by the Plan Administrator, as of which Participant Accounts are valued in accordance with Plan procedures that are currently in effect. The Plan Administrator may change the Valuation Dates for future deferrals at any time before the election to make such deferrals becomes irrevocable under the Plan. The Plan Administrator may change the Valuation Dates for existing deferrals only to the extent that such change in permissible under Section 409A.

ARTICLE III--ELIGIBILITY AND PARTICIPATION

3.01 Eligibility to Participate:

(a) An individual shall be eligible to defer compensation under the Plan during the period that he or she is a Director hereunder.

(b) During the period an individual satisfies the eligibility requirements of this Section, he or she shall be referred to as an Eligible Director.

(c) Each Eligible Director shall become an active Participant on the earlier of the date an amount is first withheld from his or her compensation pursuant to an Election Form submitted by the Director to the Plan Administrator under Section 4.01 or, the date on which a Retainer is first deferred and credited to the Plan on his or her behalf under Section 4.05.

3.02 Termination of Eligibility to Defer:

An individual's eligibility to participate actively by making deferrals under Section 4.01 shall cease as soon as administratively practicable following the date he or she ceases to be a Director.

3.03 Termination of Participation:

An individual, who has been an active Participant under the Plan, ceases to be a Participant on the date his or her Account is fully paid out.

ARTICLE IV--DEFERRAL OF COMPENSATION

4.01 Deferral Election:

(a) Each Eligible Director may make an election to defer under the Plan in 10% increments up to 100% of his or her Retainer for a Calendar Year in the manner described in Section 4.02. Such election to defer shall apply to the Retainer that is earned for services performed in the corresponding Calendar Year. A newly Eligible Director may only defer the portion of his or her eligible Retainer for the Calendar Year in which he or she becomes an Eligible Director that is earned for services performed after the date of his or her election. For this purpose, if a valid Election Form is received prior to the date on which the Eligible Director becomes a Director and the Election Form is effective under Section 4.02(a) as of the date on which the Eligible Director becomes a Director, then the Director shall be deemed to receive all of his or her Retainer for the Calendar Year in which he or she becomes an Eligible Director after the date of the election. Any Retainer deferred by an Eligible Director for a Calendar Year will be deducted for each payment period during the Calendar Year for which he or she would otherwise be paid the Retainer and is an Eligible Director.

(b) To be effective, an Eligible Director's Election Form must set forth the percentage of the Retainer to be deferred and any other information that may be requested by the Plan Administrator from time to time. In addition, the Election Form must meet the requirements of Section 4.02.

4.02 Time and Manner of Deferral Election:

(a) Deferral Election Deadlines. An Eligible Director must make a deferral election for an Retainer earned for services performed in a Calendar Year no later than December 31 of the Calendar Year immediately prior to the beginning of the Calendar Year (although the Plan Administrator may adopt policies that encourage or require earlier submission of Election Forms). If December 31 of such year is not a business day, then the deadline for deferral elections will be the first business day preceding December 31 of such year. In addition, an individual, who has been nominated for Director status, must submit an Election Form prior to becoming an Eligible Dir ector or otherwise prior to rendering services as an Eligible Director, and such Election Form will be effective immediately upon commencement of the individual's status as an Eligible Director or otherwise upon commencement of his or her services as an Eligible Director.

(b) General Provisions. A separate deferral election under subsection (a) above must be made by an Eligible Director for each Calendar Year's compensation that is eligible for deferral. If a properly completed and executed Election Form is not actually received by the Plan Administrator by the prescribed time in subsection (a) above, the Eligible Director will be deemed to have elected not to defer any portion of the Retainer for the applicable Calendar Year. Except as provided in the next sentence, an election is irrevocable once received and determined by the Plan Administrator to be properly completed (and such determination shall be made n ot later than the last date for making the election in question). Increases or decreases in the amount or percentage a Participant elects to defer shall not be permitted after the beginning of the applicable Calendar Year; provided that if a Participant receives a distribution on account of an Unforeseeable Emergency pursuant to Section 6.06, the Plan Administrator may cancel the Participant's deferral election for the Calendar Year in which such distribution occurs. If an election is cancelled because of a distribution on account of an Unforeseeable Emergency, such cancellation shall permanently apply to the deferral election for such Calendar Year, and the Participant will only be eligible to make a new deferral election for the next Calendar Year pursuant to the rules in Sections 4.01 and 4.02.

(c) Beneficiaries. A Participant may designate on the Election Form (or in some other manner authorized by the Plan Administrator) one or more Beneficiaries to receive payment, in the event of his or her death, of the amounts credited to his or her Account; provided that, to be effective, any Beneficiary designation must be in writing, signed by the Participant, and must meet such other standards (including any requirement for spousal consent) as the Plan Administrator shall require from time to time. The Beneficiary designation must also be filed with the Plan Administrator prior to the Participant's death. An incomplete Beneficiary designation, as det ermined by the Plan Administrator, shall be void and of no effect. A Beneficiary designation of an individual by name remains in effect regardless of any change in the designated individual's relationship to the Participant. Any Beneficiary designation submitted to the Plan Administrator that only specifies a Beneficiary by relationship shall not be considered an effective Beneficiary designation and shall be void and of no effect. If more than one Beneficiary is specified and the Participant fails to indicate the respective percentage applicable to two or more Beneficiaries, then each Beneficiary for whom a percentage is not designated will be entitled to an equal share of the portion of the Account (if any) for which percentages have not been designated. At any time, a Participant may change a Beneficiary designation for his or her Account in a writing that is signed by the Participant and filed with the Plan Administrator prior to the Participant's death, and t hat meets such other standards as the Plan Administrator shall require from time to time. An individual who is otherwise a Beneficiary with respect to a Participant's Account ceases to be a Beneficiary when all payments have been made from the Account.

4.03 Period of Deferral; Form of Payment:

(a) Period of Deferral. An Eligible Director making a deferral election shall specify a deferral period on his or her Election Form by designating a Specific Payment Date or the date he or she incurs a Separation from Service. In no event shall an Eligible Director's Specific Payment Date be later than his or her 85th birthday (and the specification of such a later date shall be deemed instead to specify the Director's 85th birthday as the Specific Payment Date). If an Eligible Director fails to a ffirmatively designate a period of deferral on his or her Election Form, he or she shall be deemed to have specified the date on which he or she incurs a Separation from Service.

(b) Form of Payment. An Eligible Director making a deferral election shall specify a form of payment on his or her Election Form by designating either a lump sum payment or annual installment payments to be paid over a period of not more than 5 years but not later than the Eligible Director's 85th birthday. If the Eligible Director elects installment payments and the installments would otherwise extend beyond the Eligible Director's 85th birthday, such election shall be treated as an election for installments over a period of whole and partial years that ends on the Eligible Director's 85th birthday. If an Eligible Director fails to make a f orm of payment election for a deferral as provided above, he or she shall be deemed to have elected a lump sum payment.

4.04 Second Look Election:

(a) General. Subject to Subsection (b) below, a Participant who has made a valid initial deferral in accordance with the foregoing provisions of this Article may subsequently make another one-time election regarding the time and/or form of payment of his or her deferral. This opportunity to modify the Participant's initial election is referred to as a "Second Look Election."

(b) Requirements for Second Look Elections. A Second Look Election must comply with all of the following requirements:

(1) If a Participant's initial election specified payment based on a Specific Payment Date, the Participant may only make a Second Look Election if the election is made at least 12 months before the Participant's original Specific Payment Date. In addition, in this case the Participant's Second Look Election must provide for a new Specific Payment Date that is at least 5 years after the original Specific Payment Date. The Specific Payment Date applicable pursuant to a Second Look Election may not be after the Participant's 85th birthday, and if this would be necessary to comply with 5-year rule stated above, then a Second Look Election may not be made.

(2) Subject to subsection (d), if a Participant's initial election specified payment based on the Participant's Separation from Service, the Participant may only make a Second Look Election if the election is made at least 12 months before the Participant's Separation from Service. In addition, in this case the Participant's Second Look Election must delay the payment of the Participant's deferral to a new Specific Payment Date that turns out to be at least 5 years after the Participant's Separation from Service. If the Specific Payment Date selected in a Second Look Election turns out to be less than 5 years after the Participant's Separation from Service, the Second Look Election is void.

(3) A Participant may make only one Second Look Election for each individual deferral, and each Second Look Election must comply with all of the relevant requirements of this Section.

(4) A Participant who uses a Second Look Election to change the form of the Participant's payment from a lump sum to installments shall be subject to the provisions of Subsection (c) below regarding installment payment elections, and such installment payments must begin no earlier than 5 years after when the lump sum payment would have been paid based upon the Participant's initial election.

(5) If a Participant's initial election specified payment in the form of installments and the Participant wants to elect instead payment in a lump sum, the earliest payment date of the lump sum must be no earlier than 5 years after the first payment date that applied under the Participant's initial installment election.

(6) For purposes of this Section, all of a Participant's installment payments related to a specific deferral election shall be treated as a single payment.

A Second Look Election will be void and payment will be made based on the Participant's original election under Section 4.03 (or the mandatory provisions of Section 4.05) if all of the relevant provisions of this subsection (b) are not satisfied in full. However, if a Participant's Second Look Election becomes effective in accordance with the provisions of subsection (b), the Participant's original election shall be superseded (including any Specific Payment Date specified therein), and the original election shall not be taken into account with respect to the deferral that is subject to the Second Look Election.

(c) Installment Payments. A Participant making a Second Look Election may make an election to change the payment of the deferral subject to the Second Look Election from a lump sum payment to installment payments. Participants are allowed to choose installment payments by designating that payments shall be paid annually over five years, but not later than the Participant's 85th birthday. If the Participant elects installment payments and the installments would otherwise begin before and extend beyond the Participant's 85th birthday, such election shall be treated as an election for installments over a period of whole and partial years that ends on the Participant's 85th birthday.

(d) Special Rules for Certain Second Look Elections. Notwithstanding the provisions in subsection (b)(2), if a Participant's initial deferral election specified payment based on the Participant's Separation from Service, then –

(1) If such Participant is determined to be Disabled, such Participant shall not be eligible to make a Second Look Election on or after the date the Participant is determined to be Disabled; and

(2) If such Participant submits a Second Look Election, such Participant's Second Look Election shall not take effect until the later of (i) the date the Participant has rendered 10 years of service on the Board of Directors or (ii) the date that is 12 months after the date on which the Second Look Election is made.

For purposes of paragraph (2) above, if a Participant Separates from Service prior to the date that a Participant's Second Look Election takes effect, then the Participant's Second Look Election shall be void and payment shall be made based on the Participant's original deferral election under Section 4.03.

(e) Plan Administrator's Role. Each Participant has the sole responsibility to elect a Second Look Election by contacting the Plan Administrator and to comply with the requirements of this Section. The Plan Administrator may provide a notice of a Second Look Election opportunity to some or all Participants, but the Plan Administrator is under no obligation to provide such notice (or to provide it to all Participants, in the event a notice is provided only to some Participants). The Plan Administrator has no discretion to waive or otherwise modify any requirement for a Second Look Election set forth in this Section or in Section 409A.

ARTICLE V--INTERESTS OF PARTICIPANTS

5.01 Accounting for Participants' Interests:

(a) Deferral Subaccounts. Each Participant shall have at least one separate Deferral Subaccount for each separate deferral of Director Compensation made by the Participant under this Plan. A Participant's deferral shall be credited as of the date of the deferral to his or her Account as soon as administratively practicable following the date the compensation would be paid in the absence of a deferral. A Participant's Account is a bookkeeping device to track the value of the Participant's deferrals and the Company's liability therefor. No assets shall be reserved or segregated in connection with any Account, and no Account sh all be insured or otherwise secured.

(b) Account Earnings or Losses. As of each Valuation Date, a Participant's Account shall be credited with earnings and gains (and shall be debited for expenses and losses) determined as if the amounts credited to the Participant's Account had actually been invested in accordance with this Article. The Plan provides only for "phantom investments," and therefore such earnings, gains, expenses and losses are hypothetical and not actual. However, they shall be applied to measure the value of a Participant's Account and the amount of the Company's liability to make deferred payments to or on behalf of the Participant.

5.02 Phantom Investment of Account:

(a) General. Each of a Participant's Deferral Subaccounts shall be invested on a phantom basis in phantom Unifi, Inc. Common Stock as provided in Subsection (b) below.

(b) Phantom Unifi, Inc. Common Stock. Participant Accounts invested in this phantom option are adjusted to reflect an investment in Unifi, Inc. Common Stock. An amount deferred into this option is converted to phantom shares of Unifi, Inc. Common Stock of equivalent value by dividing such amount by the Fair Market Value of a share of Unifi, Inc. Common Stock on the Valuation Date as of which the amount is treated as invested in this option by the Plan Administrator. Only whole shares are determined. Any partial share (and all amounts that would be received by the Account as dividends, if dividends were paid on phantom shares of Unifi, Inc. Common S tock as they are on actual shares) are credited to a dividend subaccount that is invested on a phantom basis as described in paragraph (4) below. The Plan Administrator shall adopt a fair valuation methodology for valuing a phantom investment in this option, such that the value shall reflect the complete value of an investment in Unifi, Inc. Common Stock in accordance with the following Paragraphs below.

(1) A Participant's interest in the phantom Unifi, Inc. Common Stock is valued as of a Valuation Date by multiplying the number of phantom shares credited to his or her Account on such date by the Fair Market Value of a share of Unifi, Inc. Common Stock on such date.

(2) If shares of Unifi, Inc. Common Stock change by reason of any stock split, stock dividend, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or any other corporate change treated as subject to this provision by the Plan Administrator, such equitable adjustment shall be made in the number and kind of phantom shares credited to an Account or Deferral Subaccount as the Plan Administrator may determine to be necessary or appropriate.

(3) In no event will shares of Unifi, Inc. Common Stock actually be purchased or held under this Plan, and no Participant shall have any rights as a shareholder of Unifi, Inc. Common Stock on account of an interest in this phantom option.

(4) All amounts that would be received by the Account as dividends, if dividends were paid on phantom shares of Unifi, Inc. Common Stock as they are on actual shares are credited to a dividend subaccount that is invested on a phantom basis (the "Dividend Subaccount"). Amounts credited to a Participant's Dividend Subaccount shall accrue a return based upon the prime rate of interest announced from time to time by Bank of America, NA (or another bank designated by the Plan Administrator from time to time). Returns accrue during the period since the last Valuation Date based on the prime rate in effect on the first business day after such Valuation Date and are compounded annually. An amount is credited with the applicable rate of return beginning with the date as of which the amount is treated as invested in this option by the Plan Administrator.

(c) Phantom Unifi, Inc. Common Stock Fund Restrictions. Notwithstanding the preceding provisions of this Section, the Plan Administrator may at any time alter the effective date of any investment or allocation involving phantom Unifi, Inc. Common Stock pursuant to Section 7.03(j) (relating to safeguards against insider trading). The Plan Administrator may also, to the extent necessary to ensure compliance with Rule 16b-3(f) of the Act, arrange for tracking of any such transaction defined in Rule 16b-3(b)(1) of the Act and bar any such transaction to the extent it would not be exempt under Rule 16b-3(f). The Company may also impose blackout periods pursuant to the requir ements of the Sarbanes-Oxley Act of 2002 whenever the Company determines that circumstances warrant. Further, the Company may impose quarterly blackout periods on insider trading in phantom Unifi, Inc. Common Stock as needed (as determined by the Company), timed to coincide with the release of the Company's quarterly earnings reports. The commencement and termination of these blackout periods in each quarter, the parties to which they apply and the activities they restrict shall be as set forth in the official insider trading policy promulgated by the Company from time to time. These provisions shall apply notwithstanding any provision of the Plan to the contrary except Section 7.06 (relating to compliance with Section 409A).

5.03 Vesting of a Participant's Account:

A Participant's interest in the value of his or her Account shall at all times be 100% vested, which means that it will not forfeit as a result of his or her Separation from Service.

ARTICLE VI--DISTRIBUTIONS

6.01 General:

A Participant's Deferral Subaccount(s) shall be distributed as provided in this Article, subject in all cases to Section 7.03(j) (relating to safeguards against insider trading) All Deferral Subaccount balances shall be paid in whole shares of Unifi, Inc. Common Stock, other than the amounts that are credited to the phantom Dividend Subaccount which shall be paid in cash. In no event shall any portion of a Participant's Account be distributed earlier or later than is allowed under Section 409A. The following general rules shall apply for purposes of interpreting the provisions of this Article VI.

(a) Section 6.02 (Distributions Based on a Specific Payment Date) applies when a Participant has elected to defer until a Specific Payment Date and the Specific Payment Date is reached before the Participant's death. If such a Participant dies prior to the Specific Payment Date, Section 6.04 shall apply to the extent it would result in an earlier distribution of all or part of a Participant's Account.

(b) Section 6.03 (Distributions on Account of a Separation from Service) applies when a Participant has elected to defer until a Separation from Service and then the Participant Separates from Service (other than as a result of death).

(c) Section 6.04 (Distributions on Account of Death) applies when the Participant dies. If a Participant is entitled to receive or is receiving a distribution under Section 6.02 or 6.03 at the time of his or her death, Section 6.04 shall take precedence over those sections to the extent Section 6.04 would result in an earlier distribution of all or part of a Participant's Account.

(d) Section 6.05 (Distributions on Account of Unforeseeable Emergency) applies when the Participant incurs an Unforeseeable Emergency prior to when a Participant's Account is distributed under Sections 6.02 through 6.04. In this case, the provisions of Section 6.05 shall take precedence over Sections 6.02 through 6.04 to the extent Section 6.05 would result in an earlier distribution of all or part of the Participant's Account.

(e) Section 6.06 (Distributions on Account of a Change in Control) applies when the Company experiences a Change in Control prior to when a Participant's Account is distributed under Sections 6.02 through 6.05. In this case, the provisions of Section 6.06 shall take precedence over Sections 6.02 through 6.05 to the extent Section 6.06 would result in an earlier distribution of all or part of the Participant's Account.

6.02 Distributions Based on a Specific Payment Date:

This Section shall apply to distributions that are to be made upon the occurrence of a Specific Payment Date. In the event a Participant's Specific Payment Date for a Deferral Subaccount is reached before the Participant's death, such Deferral Subaccount shall be distributed based on the occurrence of such Specific Payment Date in accordance with the following terms and conditions:

(a) If a Participant's Deferral Subaccount is to be paid in the form of a lump sum pursuant to Sections 4.03 or 4.04, whichever is applicable, the Deferral Subaccount shall be valued as of the last Distribution Valuation Date that immediately precedes the Specific Payment Date, and the resulting amount shall be paid in a single lump sum on the Specific Payment Date.

(b) If a Participant's Deferral Subaccount is to be paid in the form of installments pursuant to Section 4.03 or 4.04, whichever is applicable, the Deferral Subaccount shall be valued as of the last Distribution Valuation Date that immediately precedes the Specific Payment Date and the first installment payment shall be paid on the Specific Payment Date. Thereafter, installment payments shall continue in accordance with the schedule elected by the Participant on the Election Form or the Second Look Election (whichever is applicable, and subject in each case to the provisions of this Plan that constrain such elections), except as provided in Sections 6.04 through 6.06 (relating to distributions on account of death, Unforeseeable Emergency and Change in Control). The amount of each installment shall be determined under Section 6.07. Notwithstanding the preceding provisions of this Subsection, if before the date the last installment distribution is processed for payment the Participant would be entitled to a distribution in accordance with Section 6.04 (relating to a distribution on account of death), the remaining balance of the Participant's Deferral Subaccounts that would otherwise be distributed based on such Specific Payment Date shall instead be distributed in accordance with Section 6.04 (relating to distributions on account of death), whichever applies, but only to the extent it would result in an earlier distribution of the Participant's Subaccounts in the case of Section 6.04.

6.03 <u>Distributions on Account of a Separation from Service:</u>

This Section shall apply to distributions that are to be made upon Separation from Service. When used in this Section, the phrase "Separation from Service" shall only refer to a Separation from Service that is not for death.

(a) The Participant's Deferral Subaccount shall be distributed as of the first day of the first calendar quarter that immediately follows the Participant's Separation from Service except as may be delayed pursuant to subsection (d).

(b) For deferrals of Director Compensation, the Deferral Subaccount shall be distributed as of the first day of the first calendar quarter that immediately follows the Participant's Separation from Service except as may be delayed pursuant to subsection (d); and

(c) The distribution provided in subsections (a) or (b) shall be made in either a single lump sum payment or in installment payments depending upon the Participant's deferral election under Sections 4.03 or 4.04. If the Deferral Subaccount is to be paid in the form of a lump sum, the Deferral Subaccount shall be distributed in a lump sum on the first day of the first calendar quarter that is after the Separation from Service. If a Participant's Deferral Subaccount is to be paid in the form of installments pursuant to Section 4.03 or 4.04, whichever is applicable, the first installment payment shall be paid on the first day of the first calendar quarter that is after the Separation from Service. Thereafter, inst allment payments shall continue in accordance with the schedule elected by the Participant on his/her deferral election form or Second Look Election (and subject in each case to the provisions of this Plan that constrain such elections), except as provided in Sections 6.04 through 6.06 (relating to distributions on account of death, Unforeseeable Emergency and Change in Control). The amount of each installment shall be determined under Section 6.07. Notwithstanding the preceding provisions of this Subsection, if before the date the last installment distribution is processed for payment the Participant would be entitled to a distribution in accordance with Section 6.04 (relating to a distribution on account of death), the remaining balance of the Participant's Deferral Subaccounts that would otherwise be distributed based on such Separation from Service shall instead be distributed in accordance with Section 6.04 (relating to distributions on account of death), whichever applies, b ut only to the extent it would result in an earlier distribution of the Participant's Account in the case of Section 6.04. Unless otherwise provided in this Section, a distribution shall be valued as of the Distribution Valuation Date that immediately precedes the date the payment is to be made.

(d) Notwithstanding the subsections above, if the Participant is classified as a Key Employee at the time of the Participant's Separation from Service (or at such other time for determining Key Employee status as may apply under Section 409A), then such Participant's Account shall not be paid, as a result of the Participant's Separation from Service, earlier than the date that is at least 6 months after the Participant's Separation from Service. In such event:

(1) any applicable lump sum payment shall be valued as of the first Distribution Valuation Date that is on or after the date that is 6 months after the date of the Participant's Separation from Service and the resulting amount shall be distributed on such date; and

(2) any installment payments that would otherwise have been paid during such 6 month period shall be valued as of the first Distribution Valuation Date that is on or after the date that is 6 months after the date of the Participant's Separation from Service pursuant to Section 6.07 and the resulting amount(s) shall be distributed in a lump sum on such date and the installment stream shall continue from that point in accordance with the applicable schedule.

6.04 Distributions on Account of Death:

(a) Upon a Participant's death, the Participant's Account under the Plan shall be distributed in a single lump sum as of the first day of the first calendar quarter immediately following the Participant's death. This payment shall be valued as of the Distribution Valuation Date that immediately precedes the payment date. If the Participant is receiving installment payments at the time of the Participant's death, such installment payments shall continue in accordance with the terms of the Participant's deferral election that governs such payments until the time that the lump sum payment is due to be paid under the provisions of the preceding sentence of this Subsection. Immediately prior to the time that such lump sum payment is to be paid all installment payments shall cease and the remaining balance of the Participant's Account shall be distributed at such scheduled payment time in a single lump sum. Amounts paid following a Participant's death, whether a lump sum or continued installments, shall be paid to the Participant's Beneficiary. If some but not all of the persons designated as Beneficiaries by a Participant to receive his or her Account at death predecease the Participant, the Participant's surviving Beneficiaries shall be entitled to the portion of the Participant's Account intended for such pre-deceased persons in proportion to the surviving Beneficiaries' respective shares.

(b) If no designation is in effect at the time of a Participant's death (as determined by the Plan Administrator) or if all persons designated as Beneficiaries have predeceased the Participant, then the payments to be made pursuant to this Section shall be distributed as follows:

(1) If the Participant is married at the time of his/her death, all payments made pursuant to this Section shall be paid to the Participant's spouse; and

(2) If the Participant is not married at the time of his/her death, all payments made pursuant to this Section shall be paid to the Participant's estate.

The Plan Administrator shall determine whether a Participant is "married" and shall determine a Participant's "spouse" based on the state or local law where the Participant has his/her primary residence at the time of death. The Plan Administrator is authorized to make any applicable inquires and to request any documents, certificates or other information that it deems necessary or appropriate in order to make the above determinations.

(c) Prior to the time the value of the Participant's Account is distributed under this Section, the Participant's Beneficiary may apply for a distribution under Section 6.05 (relating to a distribution on account of an Unforeseeable Emergency).

(d) Any claim to be paid any amounts standing to the credit of a Participant in connection with the Participant's death must be received by the Plan Administrator or the Plan Administrator at least 14 days before any such amount is paid out by the Plan Administrator. Any claim received thereafter is untimely, and it shall be unenforceable against the Plan, the Company, the Plan Administrator, the Plan Administrator or any other party acting for one or more of them.

6.05 Distributions on Account of Unforeseeable Emergency:

Prior to the time that an amount would become distributable under Sections 6.02 through 6.04 or Section 6.06, a Participant or Beneficiary may file a written request with the Plan Administrator for accelerated payment of all or a portion of the amount credited to the Participant's Account based upon an Unforeseeable Emergency. After an individual has filed a written request pursuant to this Section, along with all supporting material that may be required by the Plan Administrator from time to time, the Plan Administrator shall determine within 60 days (or such other number of days that is necessary if special circumstances warrant additional time) whether the individual meets the criteria for an Unforeseeable Emergency. If the Plan Administrator determines that an Unforeseeable Emergenc y has occurred, the Participant or Beneficiary shall receive a distribution from his or her Account on the date that such determination is finalized by the Plan Administrator. However, such distribution shall not exceed the dollar amount necessary to satisfy the Unforeseeable Emergency (plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution) after taking into account the extent to which the Unforeseeable Emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

6.06 Distributions on Account of a Change in Control:

(a) Upon a Change in Control, the Participant's Account under the Plan shall be distributed in a single lump sum as of the first day of the calendar quarter immediately following the date of such Change in Control. This payment shall be valued as of the Distribution Valuation Date that immediately precedes the payment date. If the Participant is receiving installment payments at the time of the Change in Control, such installment payments shall continue in accordance with the terms of the Participant's deferral election that governs such payments until the time that the lump sum payment is due to be paid under the provisions of the preceding sentence of this Subsection. Immediately prior to the time that such lump sum paym ent is to be paid all installment payments shall cease and the remaining balance of the Participant's Account shall be distributed at such scheduled payment time in a single lump sum.

(b) Prior to the time the value of the Participant's Account is distributed under this Section, the Participant may apply for a distribution under Section 6.05 (relating to a distribution on account of an Unforeseeable Emergency).

6.07 Valuation:

In determining the amount of any individual distribution pursuant to this Article, the Participant’s Deferral Subaccount shall continue to be credited with earnings and gains (and debited for expenses and losses) as specified in Article V until the Distribution Valuation Date that is used in determining the amount of the distribution under this Article. If a particular Section in this Article does not specify a Distribution Valuation Date to be used in calculating the distribution, the Participant’s Deferral Subaccount shall continue to be credited with earnings and gains (and debited for expenses and losses) as specified in Article V until the Distribution Valuation Date most recently preceding the date of such distribution. In determining the value of a Participant’s remaining Deferral Subaccount following an installment distribution from the Deferral Subaccount (or a partial distribution under Section 6.05 relating to a distribution on account of an Unforeseeable Emergency), such distribution shall reduce the value of the Participant’s Deferral Subaccount as of the close of the Distribution Valuation Date most recently preceding the payment date for such installment (or partial distribution). The amount to be distributed in connection with any installment payment shall be determined by dividing the value of a Participant’s Deferral Subaccount as of such Distribution Valuation Date (determined before reduction of the Deferral Subaccount as of such Distribution Valuation Date in accordance with the preceding sentence) by the remaining number of installments to be paid with respect to the Deferral Subaccount.

6.08 Actual Payment Date:

An amount payable on a date specified in this Article VI shall be paid no later than the later of (a) the end of the calendar year in which the specified date occurs, or (b) the 15th day of the third calendar month following such specified date. In addition, the Participant (or Beneficiary) is not permitted to designate the taxable year of the payment.

ARTICLE VII--PLAN ADMINISTRATION

7.01 Plan Administrator:

The Plan Administrator is responsible for the administration of the Plan. The Plan Administrator has the authority to name one or more delegates to carry out certain responsibilities hereunder, as specified in the definition of Plan Administrator. To the extent not already set forth in the Plan, any such delegation shall state the scope of responsibilities being delegated.

7.02 Action:

Action by the Plan Administrator may be taken in accordance with procedures that the Plan Administrator adopts from time to time or that the Company's Legal Department determines are legally permissible.

7.03 Powers of the Plan Administrator:

The Plan Administrator shall administer and manage the Plan and shall have (and shall be permitted to delegate) all powers necessary to accomplish that purpose, including the following:

(a) To exercise its discretionary authority to construe, interpret, and administer this Plan;

(b) To exercise its discretionary authority to make all decisions regarding eligibility, participation and deferrals, to make allocations and determinations required by this Plan, and to maintain records regarding Participants' Accounts;

(c) To compute and certify to the Company the amount and kinds of payments to Participants or their Beneficiaries, and to determine the time and manner in which such payments are to be paid;

(d) To authorize all disbursements by the Company pursuant to this Plan;

(e) To maintain (or cause to be maintained) all the necessary records for administration of this Plan;

(f) To make and publish such rules for the regulation of this Plan as are not inconsistent with the terms hereof;

(g) To delegate to other individuals or entities from time to time the performance of any of its duties or responsibilities hereunder;

(h) To change the phantom investment under Article V;

(i) To hire agents, accountants, actuaries, consultants and legal counsel to assist in operating and administering the Plan; and

(j) Notwithstanding any other provision of this Plan except Section 7.07 (relating to compliance with Section 409A), the Plan Administrator may take any action the Plan Administrator determines is necessary to assure compliance with any policy of the Company respecting insider trading as may be in effect from time to time. Such actions may include altering the distribution date of Deferral Subaccounts. Any such actions shall alter the normal operation of the Plan to the minimum extent necessary.

The Plan Administrator has the exclusive and discretionary authority to construe and to interpret the Plan, to decide all questions of eligibility for benefits, to determine the amount and manner of payment of such benefits and to make any determinations that are contemplated by (or permissible under) the terms of this Plan, and its decisions on such matters will be final and conclusive on all parties. Any such decision or determination shall be made in the absolute and unrestricted discretion of the Plan Administrator, even if (1) such discretion is not expressly granted by the Plan provisions in question, or (2) a determination is not expressly called for by the Plan provisions in question, and even though other Plan provisions expressly grant discretion or call for a determination. As a result, benefits under this Plan will be paid only if the Plan Administrator decides in its discretion that the applicant is entitled to them. In the event of a review by a court, arbitrator or any other tribunal, any exercise of the Plan Administrator's discretionary authority shall not be disturbed unless it is clearly shown to be arbitrary and capricious.

7.04 Compensation, Indemnity and Liability:

The Plan Administrator will serve without bond and without compensation for services hereunder. All expenses of the Plan and the Plan Administrator will be paid by the Company. To the extent deemed appropriate by the Plan Administrator, any such expense may be charged against specific Participant Accounts, thereby reducing the obligation of the Company. No member of the Board of Directors (who serves as the Plan Administrator), and no individual acting as the delegate of the Board of Directors, shall be liable for any act or omission of any other member or individual, nor for any act or omission on his or her own part, excepting his or her own willful misconduct. The Company will indemnify and hold harmless each member of the Board of Directors and any employee of the Company (or a Company affiliate, if recognized as an affiliate for this purpose by the Plan Administrator) acting as the delegate of the Board of Directors against any and all expenses and liabilities, including reasonable legal fees and expenses, arising in connection with this Plan out of his or her membership on the Board of Directors (or his or her serving as the delegate of the Board of Directors), excepting only expenses and liabilities arising out of his or her own willful misconduct or bad faith.

7.05 Withholding:

The Company shall withhold from amounts due under this Plan, any amount necessary to enable the Company to remit to the appropriate government entity or entities on behalf of the Participant as may be required by the federal income tax provisions of the Code, by an applicable state's income tax provisions, and by an applicable city, county or municipality's earnings or income tax provisions. Further, the Company shall withhold from the payroll of, or collect from, a Participant the amount necessary to remit on behalf of the Participant any Social Security and/or Medicare taxes which may be required with respect to amounts deferred or accrued by a Participant hereunder, as determined by the Company. In addition, to the extent required by Section 409A, amounts deferred under this Plan sh all be reported to the Internal Revenue Service as provided by Section 409A, and any amounts that become taxable hereunder pursuant to Section 409A shall be reported as taxable compensation to the Participant as provided by Section 409A.

7.06 Conformance with Section 409A:

At all times during each Plan Year, this Plan shall be operated in accordance with the requirements of Section 409A. In all cases, the provisions of this Section shall apply notwithstanding any contrary provision of the Plan that is not contained in this Section.

ARTICLE VIII--CLAIMS PROCEDURE

8.01 Claims for Benefits:

If a Participant, Beneficiary or other person (hereafter, "Claimant") does not receive timely payment of any benefits which he or she believes are due and payable under the Plan, he or she may make a claim for benefits to the Plan Administrator. The claim for benefits must be in writing and addressed to the Plan Administrator. If the claim for benefits is denied, the Plan Administrator will notify the Claimant within 90 days after the Plan Administrator initially received the benefit claim. However, if special circumstances require an extension of time for processing the claim, the Plan Administrator will furnish notice of the extension to the Claimant prior to the termination of the initial 90-day period and such extension may not exceed one additional, consecutive 90-day p eriod. Any notice of a denial of benefits shall advise the Claimant of the basis for the denial, any additional material or information necessary for the Claimant to perfect his or her claim, and the steps which the Claimant must take to appeal his or her claim for benefits.

8.02 Appeals of Denied Claims:

Each Claimant whose claim for benefits has been denied may file a written appeal for a review of his or her claim by the Plan Administrator. The request for review must be filed by the Claimant within 60 days after he or she received the notice denying his or her claim. The decision of the Plan Administrator will be communicated to the Claimant within 60 days after receipt of a request for appeal. The notice shall set forth the basis for the Plan Administrator's decision. If special circumstances require an extension of time for processing the appeal, the Plan Administrator will furnish notice of the extension to the Claimant prior to the termination of the initial 60-day period and such extension may not exceed one additional, consecutive 60-day period. In n o event shall the Plan Administrator's decision be rendered later than 120 days after receipt of a request for appeal.

8.03 Special Claims Procedures for Disability Determinations:

Notwithstanding Sections 8.01 and 8.02 to the contrary, if the claim or appeal of the Claimant relates to Disability benefits, such claim or appeal shall be processed pursuant to the applicable provisions of Department of Labor Regulation Section 2560.503-1 relating to Disability benefits, including Sections 2560.503-1(d), 2560.503-1(f)(3), 2560.503-1(h)(4) and 2560.503-1(i)(3).

ARTICLE IX--AMENDMENT AND TERMINATION

9.01 Amendment of Plan:

The Board (or an applicable committee thereof) of the Company has the right in its sole discretion to amend this Plan in whole or in part at any time and in any manner, including the manner of making deferral elections, the terms on which distributions are made, and the form and timing of distributions. However, except for mere clarifying amendments necessary to avoid an inappropriate windfall, no Plan amendment shall reduce the amount credited to the Account of any Participant as of the date such amendment is adopted. Any amendment shall be in writing and adopted by the Committee. All Participants and Beneficiaries shall be bound by such amendment. Any amendments made to the Plan shall be subject to any restrictions on amendment that are applicable to ensure continued compli ance under Section 409A.

9.02 Termination of Plan:

(a) The Company expects to continue this Plan, but does not obligate itself to do so. The Company, acting by the Board (or an applicable committee thereof), reserves the right to discontinue and terminate the Plan at any time, in whole or in part, for any reason (including a change, or an impending change, in the tax laws of the United States or any state). Termination of the Plan will be binding on all Participants (and a partial termination shall be binding upon all affected Participants) and their Beneficiaries, but in no event may such termination reduce the amounts credited at that time to any Participant's Account. If this Plan is terminated (in whole or in part), the termination resolution shall provide for ho w amounts theretofore credited to affected Participants' Accounts will be distributed.

(b) This Section is subject to the same restrictions related to compliance with Section 409A that apply to Section 9.01. In accordance with these restrictions, the Company intends to have the maximum discretionary authority to terminate the Plan and make distributions in connection with a Change in Control, and the maximum flexibility with respect to how and to what extent to carry this out following a Change in Control as is permissible under Section 409A. The previous sentence contains the exclusive terms under which a distribution may be made in connection with any change in control with respect to deferrals made under this 409A Program.

ARTICLE X--MISCELLANEOUS

10.01 Limitation on Participant's Rights:

Participation in this Plan does not give any Participant the right to be retained in the service of the Company. The Company reserves the right to terminate the service of any Participant without any liability for any claim against the Company under this Plan, except for a claim for payment of deferrals as provided herein.

10.02 Unfunded Obligation of the Company:

The benefits provided by this Plan are unfunded. All amounts payable under this Plan to Participants are paid from the general assets of the Company. Nothing contained in this Plan requires the Company to set aside or hold in trust any amounts or assets for the purpose of paying benefits to Participants. Neither a Participant, Beneficiary, nor any other person shall have any property interest, legal or equitable, in any specific Company asset. This Plan creates only a contractual obligation on the part of the Company, and the Participant has the status of a general unsecured creditor of the Company with respect to amounts of compensation deferred hereunder. Such a Participant shall not have any preference or priority over, the rights of any other unsecured general creditor of the Company. No other Company affiliate guarantees or shares such obligation, and no other Company affiliate shall have any liability to the Participant or his or her Beneficiary.

10.03 Other Plans:

This Plan shall not affect the right of any Eligible Director or Participant to participate in and receive benefits under and in accordance with the provisions of any other Director compensation plans which are now or hereafter maintained by the Company, unless the terms of such other plan or plans specifically provide otherwise or it would cause such other plan to violate a requirement for tax favored treatment.

10.04 Receipt or Release:

Any payment to a Participant in accordance with the provisions of this Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan Administrator, the Plan Administrator and the Company, and the Plan Administrator may require such Participant, as a condition precedent to such payment, to execute a receipt and release to such effect.

10.05 Governing Law:

This Plan shall be construed, administered, and governed in all respects in accordance with applicable federal law and, to the extent not preempted by federal law, in accordance with the laws of the State of North Carolina. If any provisions of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

10.06 Gender, Tense and Examples:

In this Plan, whenever the context so indicates, the singular or plural number and the masculine, feminine, or neuter gender shall be deemed to include the other. Whenever an example is provided or the text uses the term “including” followed by a specific item or items, or there is a passage having a similar effect, such passage of the Plan shall be construed as if the phrase “without limitation” followed such example or term (or otherwise applied to such passage in a manner that avoids limitation on its breadth of application).

10.07 Successors and Assigns; Nonalienation of Benefits:

This Plan inures to the benefit of and is binding upon the parties hereto and their successors, heirs and assigns; provided, however, that the amounts credited to the Account of a Participant are not (except as provided in Section 7.05) subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any right to any benefits payable hereunder, including, without limitation, any assignment or alienation in connection with a separation, divorce, child support or similar arrangement, will be null and void and not binding on the Plan or the Company. Notwithstanding the foregoing, t he Plan Administrator reserves the right to make payments in accordance with a divorce decree, judgment or other court order as and when cash payments are made in accordance with the terms of this Plan from the Deferral Subaccount of a Participant. Any such payment shall be charged against and reduce the Participant's Account.

10.08 Facility of Payment:

Whenever, in the Plan Administrator's opinion, a Participant or Beneficiary entitled to receive any payment hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his or her financial affairs, the Plan Administrator may direct the Company to make payments to such person or to the legal representative of such person for his or her benefit, or to apply the payment for the benefit of such person in such manner as the Plan Administrator considers advisable. Any payment in accordance with the provisions of this Section shall be a complete discharge of any liability for the making of such payment to the Participant or Beneficiary under the Plan.

ARTICLE XI--AUTHENTICATION

The Plan was adopted and approved by the Company's Executive Committee of the Board of Directors on December 14, 2010**,** to be effective as of December 14, 2010, except as provided herein.

UNIFI, INC.

By: /S/ CHARLES F. MCCOY
Name: Charles F. McCoy
Title: V.P., Secretary & General Counsel

EXHIBIT 31.1

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

I, William L. Jasper, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 4, 2011

By: /s/ WILLIAM L. JASPER
William L. Jasper
President and Chief Executive Officer

EXHIBIT 31.2

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

I, Ronald L. Smith, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 4, 2011

By: /s/ RONALD L. SMITH
Ronald L. Smith
Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Unifi, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended December 26, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William L. Jasper, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: February 4, 2011

By: /s/ WILLIAM L. JASPER
William L. Jasper
President and Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Unifi, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended December 26, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald L. Smith, Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: February 4, 2011

By: /s/ RONALD L. SMITH
Ronald L. Smith
Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)