UNIFI INC
Form 10-Q
November 04, 2011

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 September 25, 2011

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 (State or other jurisdiction of incorporation or organization)	11-2165495 (I.R.S. EmployerIdentification No.)
P.O. Box 19109 -7201 West Friendly Avenue Greensboro, NC (Address of principal executive offices)	27419 (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 [ ] Smaller Reporting Company [ ]
(Do not check if a 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 October 28, 2011 was 20,088,094.

UNIFI, INC.
Form 10-Q for the Quarterly Period Ended September 25, 2011

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Part I. Financial Information

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(amounts in thousands, except share and per share amounts)

	September 25, 2011	June 26, 2011
ASSETS		
Cash and cash equivalents	$19,821	$27,490
Receivables, net	95,778	100,175
Inventories	135,976	134,883
Income taxes receivable	769	578
Deferred income taxes	4,390	5,712
Other current assets	4,841	5,231
Total current assets	261,575	274,069
Property, plant and equipment, net	141,797	151,027
Intangible assets, net	11,027	11,612
Investments in unconsolidated affiliates	92,340	91,258
Other non-current assets	8,606	9,410
Total assets	$515,345	$537,376
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$46,036	$42,842
Accrued expenses	16,008	17,495
Income taxes payable	767	421
Current portion of long-term debt	348	342
Total current liabilities	63,159	61,100
Long-term debt	163,622	168,322
Other long-term liabilities	3,947	4,007
Deferred income taxes	2,453	4,292
Total liabilities	233,181	237,721
Commitments and contingencies		
Common stock, $0.10 par (500,000,000 shares authorized, 20,086,094 and 20,080,253 shares outstanding)	2,009	2,008
Capital in excess of par value	33,015	32,599
Retained earnings	241,558	241,272
Accumulated other comprehensive income	5,582	23,776
Total shareholders' equity	282,164	299,655
Total liabilities and shareholders' equity	$515,345	$537,376

See accompanying notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(amounts in thousands, except per share amounts)

	For the Three Months Ended	
	September 25, 2011	September 26, 2010
Net sales	$171,013	$175,092
Cost of sales	159,183	153,546
Gross profit	11,830	21,546
Restructuring charges	—	363
Selling, general and administrative expenses	10,371	11,510
Provision (benefit) for bad debts	205	(41)
Other operating (income) expense, net	(41)	243
Operating income	1,295	9,471
Interest income	(647)	(743)
Interest expense	4,380	5,269
Loss on extinguishment of debt	462	1,144
Equity in earnings of unconsolidated affiliates	(3,459)	(8,951)
Income before income taxes	559	12,752
Provision for income taxes	273	2,517
Net income	$286	$10,235
Net income per common share:		
Basic	$0.01	$0.51
Diluted	$0.01	$0.50

See accompanying notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(amounts in thousands)

	For the Three Months Ended September 25, 2011	September 26, 2010
Net income	$286	$10,235
Other comprehensive income (loss) before tax:		
Foreign currency adjustments	(17,225)	6,707
Loss on cash flow hedge	(969)	—
Other comprehensive income (loss), before tax	(18,194)	6,707
Income tax expense related to items of other comprehensive income (loss)	—	—
Other comprehensive income (loss), net of tax	(18,194)	6,707
Comprehensive income (loss)	$(17,908)	$16,942

See accompanying notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
For the Three Months Ended September 25, 2011
(amounts in thousands)

	Shares Outstanding	Common Stock	Capital in Excess of Par Value (1)	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance June 26, 2011	20,080	$2,008	$32,599	241,272	23,776	299,655
Options exercised	6	1	48	—	—	49
Stock-based compensation	—	—	368	—	—	368
Other comprehensive loss	—	—	—	—	(18,194)	(18,194)
Net income	—	—	—	286	—	286
Balance September 25, 2011	20,086	$2,009	$33,015	$241,558	$ 5,582	$ 282,164

See accompanying notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(amounts in thousands)

	For the Three Months Ended September 25, 2011	September 26, 2010
Cash and cash equivalents at beginning of year	$27,490	$42,691
Operating activities:		
Net income	286	10,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in earnings of unconsolidated affiliates	(3,459)	(8,951)
Dividends received from unconsolidated affiliates	2,005	2,532
Depreciation and amortization	6,782	6,743
Net loss (gain) on sale of assets	64	(65)
Loss on extinguishment of debt	462	1,144
Non-cash compensation expense	243	347
Deferred income taxes	(718)	225
Other	(1)	7
Changes in assets and liabilities, excluding effects of foreign currency adjustments:		
Receivables	403	(2,751)
Inventories	(7,386)	(7,620)
Other current assets and income taxes receivable	(129)	107
Accounts payable and accrued expenses	2,622	1,284
Income taxes payable	647	774
Net cash provided by operating activities	1,821	4,011
Investing activities:		
Capital expenditures	(1,122)	(5,495)
Investments in unconsolidated affiliates	(360)	(225)
Proceeds from sale of assets	173	180
Net cash used in investing activities	(1,309)	(5,540)
Financing activities:		
Payments of notes payable	(10,288)	(15,863)
Payments on revolving credit facility	(53,500)	(40,525)
Proceeds from borrowings on revolving credit facility	58,800	40,525
Proceeds from stock option exercises	49	—
Debt financing fees	—	(821)
Net cash used in financing activities	(4,939)	(16,684)
Effect of exchange rate changes on cash and cash equivalents	(3,242)	1,796
Net decrease in cash and cash equivalents	(7,669)	(16,417)
Cash and cash equivalents at end of period	$19,821	$26,274

See accompanying notes to Condensed Consolidated Financial Statements.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements
(amounts in thousands, except per share amounts)

1. Background
Unifi, Inc., a New York corporation formed in 1969 (together with its subsidiaries, the "Company" or "Unifi") is a publicly-traded, multi-national manufacturing company. The Company processes and sells high-volume commodity yarns, specialized yarns designed to meet certain customer specifications and premier value-added ("PVA") yarns with enhanced performance characteristics and higher expected gross margin percentages. The Company sells its polyester and nylon products to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, hosiery, sock, home furnishings, automotive upholstery, industrial and other end-use markets. The Company's polyester products include recycled polyester polymer beads ("Chip"), partially oriented yarn ("POY"), textured, solution and package dyed, twisted and beamed yarns. The Company's nylon products include textured, solution dyed and covered spandex yarns. The Company maintains one of the industry's most comprehensive product offerings and has ten manufacturing operations in four countries and participates in joint ventures in Israel and the United States ("U.S."). In addition, the Company has a wholly-owned subsidiary in the People's Republic of China ("China") focused on the sale and promotion of the Company's specialty and PVA products in the Asian textile market, primarily in China.

2. Basis of Presentation
The Company's current fiscal quarter ended on Sunday September 25, 2011. However, the Company's Brazilian, Colombian, and Chinese subsidiaries' fiscal quarter ended on September 30, 2011. No significant transactions or events have occurred between these dates and the date of the Company's financial statements. The three months ended September 25, 2011 and the three months ended September 26, 2010 each consist of thirteen week periods.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the amounts reported and certain financial statement disclosures. Actual results may vary from these estimates.

These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's most recent Annual Report on Form 10-K. There were no changes in the nature of our significant accounting policies or the application of our accounting policies from those reported in our most recent Annual Report on Form 10-K. Certain prior period information has been reclassified to conform to the current period presentation.

The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year.

All amounts and share amounts, except per share amounts, are presented in thousands, except as otherwise noted.

3. Accounting Pronouncements
Recently Adopted Accounting Pronouncements
There were no new accounting pronouncements adopted during the period.

Recently Issued Accounting Pronouncements
There have been no newly issued or newly applicable accounting pronouncements that have or are expected to have a significant impact on the Company's financial statements.

4. Receivables, net

Receivables, net consist of the following:

	September 25, 2011	June 26, 2011
Customer receivables	$96,212	$100,893
Allowance for uncollectible accounts	(1,199)	(1,147)
Reserves for yarn quality claims	(1,167)	(1,101)
Net customer receivables	93,846	98,645
Related parties receivables	599	512
Other receivables	1,333	1,018
Total receivables, net	$95,778	$100,175

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

Other receivables consist primarily of receivables for duty drawback, interest and refunds due to the Company for value added taxes.

The changes in the Company's allowance for uncollectible accounts and reserves for yarn quality claims were as follows:

	Allowance for Uncollectible Accounts	Reserves for Yarn Quality Claims
Balance at June 26, 2011	$(1,147)	$(1,101)
Charged to costs and expenses	(205)	(367)
Charged to other accounts	80	170
Deductions	73	131
Balance at September 25, 2011	$(1,199)	$(1,167)

Amounts charged to costs and expenses for the allowance for uncollectible accounts are reflected in the Provision for bad debts and amounts charged to costs and expenses for the reserves for yarn quality claims are primarily reflected as a reduction in the Net sales lines of the Condensed Consolidated Statements of Operations. Amounts charged to other accounts primarily include the impact of translating the activity of the Company's foreign affiliates from their respective local currencies to the U.S. dollar. For the allowance for uncollectible accounts, deductions represent amounts written off which were deemed to not be collectible, net of any recoveries. For the reserve for yarn quality claims, deductions represent adjustments to either increase or decrease claims based on negotiated amounts or actual versus estimated claim differences.

5. Inventories
Inventories consist of the following:

	September 25, 2011	June 26, 2011
Raw materials	$50,134	$52,387
Supplies	5,695	6,016
Work in process	6,330	7,000
Finished goods	77,788	74,399
Gross inventories	139,947	139,802
Inventory reserves	(3,971)	(4,919)
Total inventories	135,976	$134,883

Certain foreign inventories of $32,723 and $43,734 as of September 25, 2011 and June 26, 2011, respectively, were valued under the average cost method. The change from the beginning of the year was due to declining prices and lower quantities on-hand at the Company's Brazilian operations as well as the weakening of the Brazilian Real versus the U.S. dollar. Included in the Company's finished goods is $169 and $164 of consigned goods located in El Salvador.

6. Other Current Assets
Other current assets consist of the following:

	September 25, 2011	June 26, 2011
Value added taxes receivable	$2,123	$2,971
Prepaid expenses	1,320	1,282
Vendor deposits	1,204	921
Other expenses	194	57
Total other current assets	$4,841	$5,231

Prepaid expenses consist of advance payments for insurance, public exchange and rating services, professional fees, membership dues, subscriptions and information technology services. Other expenses include non-income related tax payments and employee advances.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

7. Property, Plant and Equipment, Net
Property, plant and equipment, net consist of the following:

	September 25, 2011	June 26, 2011
Land	$3,275	$3,454
Land improvements	11,400	11,400
Buildings and improvements	147,335	151,484
Assets under capital lease	9,520	9,520
Machinery and equipment	540,183	545,279
Computers, software and office equipment	17,770	19,585
Construction in progress	2,280	4,583
Transportation equipment	4,850	5,162
Gross property, plant and equipment	736,613	750,467
Less: accumulated depreciation	(586,031)	(590,878)
Less: accumulated amortization – capital lease	(8,785)	(8,562)
Property, plant and equipment, net	$141,797	$151,027

Depreciation expense, internal software development costs amortization, repair and maintenance expenses and capitalized interest were as follows:

	For the Three Months Ended	
	September 25, 2011	September 26, 2010
Depreciation expense	$5,905	$5,752
Internal software development costs amortization	71	99
Repair and maintenance expenses	4,328	4,432
Capitalized interest	—	—

Internal software development costs classified within property, plant and equipment (“PP&E”) consist of the following:

	September 25, 2011	June 26, 2011
Internal software development costs	$1,900	$1,900
Accumulated amortization	(1,639)	(1,568)
Net internal software development costs	$261	$332

8. Intangible Assets, Net
Intangible assets, net consist of the following:

	September 25, 2011	June 26, 2011
Customer list	$22,000	$22,000
Non-compete agreements	4,000	4,000
Total intangible assets, gross	26,000	26,000

Accumulated amortization - customer list	(12,640)	(12,134)
Accumulated amortization - non-compete agreements	(2,333)	(2,254)
Total accumulated amortization	(14,973)	(14,388)
Intangible assets, net	$11,027	$11,612

In fiscal year 2007, the Company purchased the polyester and nylon texturing operations of Dillon Yarn Corporation ("Dillon"). The valuation of the customer list acquired was determined by estimating the discounted net earnings attributable to the customer relationships that were purchased after considering items such as possible customer attrition. Based on the length and trend of the projected cash flows, an estimated useful life of thirteen years was determined. 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 amortized using the straight line method over the periods covered by the covenants not to compete.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

Amortization expense for intangible assets was as follows:

	For the Three Months Ended	
	September 25, 2011	September 26, 2010
Customer list amortization expense	$506	$543
Non-compete amortization expense	79	95
Total amortization expense	$585	$638

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

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

9. Other Non-Current Assets
Other non-current assets consist of the following:

	September 25, 2011	June 26, 2011
Long-term deposits	$5,310	$5,709
Debt financing fees	2,849	3,245
Other	447	456
Total other non-current assets	$8,606	$9,410

Long-term deposits consist primarily of deposits with utility companies and value added tax deposits. Other non-current assets primarily consists of premiums on split dollar life insurance policies which represents the value of the Company's right of return on premiums paid for retiree owned insurance contracts.

10. Accrued Expenses
Accrued expenses consist of the following:

	September 25, 2011	June 26, 2011
Payroll and fringe benefit costs	$5,748	$11,119
Utilities	2,467	2,237
Interest	5,283	1,900
Property taxes	1,327	885
Retiree medical liability	178	202
Other	1,005	1,152
Total accrued expenses	$16,008	$17,495

Other accruals consist primarily of sales taxes, marketing expenses, freight expenses, customer deposits, rent and other non-income related taxes. The decreased accrual for payroll and fringe benefit costs is primarily due to the timing associated with payment of awards previously earned and the amounts expected to be earned under variable compensation programs. The increased accrual for interest is due to timing of scheduled interest payments for certain of the Company's debt obligations.

11. Defined Contribution Plan

The Company matches employee contributions made to the Unifi, Inc. Retirement Savings Plan (the "DC Plan"), an existing 401(k) defined contribution plan, which covers eligible domestic salaried and hourly employees. Under the terms of the DC Plan, the Company matches 100% of the first three percent of eligible employee contributions and 50% of the next two percent of eligible contributions.

The contribution expenses were as follows:

	For the Three Months Ended	
	September 25, 2011	September 26, 2010
Matching contribution expenses	$558	$630

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Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

12. Long-Term Debt
Long-term debt consists of the following:

	September 25, 2011	June 26, 2011
Notes payable	$123,722	$133,722
Revolving credit facility	39,900	34,600
Capital lease obligation	348	342
Total debt	163,970	168,664
Current portion of long-term debt	(348)	(342)
Total long-term debt	$163,622	$168,322

Notes Payable
On May 26, 2006, the Company issued $190,000 of 11.5% senior secured notes ("2014 notes") due May 15, 2014 with interest payable on May 15 and November 15 of each year. The 2014 notes are 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 PP&E, 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. The terms of the 2014 notes do not contain financial maintenance covenants.

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.

On August 5, 2011, the Company completed the redemption of an aggregate principal amount of $10,000 of its 2014 notes. The Company redeemed a portion of the 2014 notes under the terms of the indenture governing the 2014 notes (the "Indenture") at 102.875% making the aggregate redemption price $10,288 which excluded $256 in accrued interest. The Company financed the redemption through borrowings under its revolving credit facility. In connection with the redemption, the Company entered into a twenty-one month, $10,000 interest rate swap with Bank of America, N.A. to provide a hedge against the variability of cash flows (monthly interest expense payments) on $10,000 of LIBOR-based variable rate borrowings under the Company's revolving credit facility. This interest rate swap allows the Company to fix the LIBOR rate at 0.75%.

The following table presents the components of the Company's partial redemptions of its 2014 notes and the charges for the extinguishment of debt:

Date	Principal Amount	Redemption Price	Premium (Discount)	Costs and Other Fees	Loss / (Gain)
August 5, 2011	$ 10,000	102.875%	$ 288	$ 174	$ 462
Total – FY 2012	$ 10,000		$ 288	$ 174	$ 462
June 30, 2010	$ 15,000	105.75%	$ 862	$ 282	$ 1,144
February 16, 2011	30,000	105.75%	1,725	468	2,193

Total – FY 2011	$	45,000		$	2,587	$	750	$	3,337
September 15, 2009	$	500	86.75%	$	(66)	$	12	$	(54)
Total – FY 2010	$	500		$	(66)	$	12	$	(54)
April 3, 2009	$	8,778	100.00%	$	—	$	226	$	226
June 3, 2009		2,000	73.75%		(525)		48		(477)
Total – FY 2009	$	10,778		$	(525)	$	274	$	(251)

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

Revolving Credit Facility

Concurrent with the issuance of the 2014 notes, the Company amended its senior secured asset-based revolving credit facility (“Amended Credit Agreement”) which, along with revising certain terms and covenants, extended its maturity date to May 15, 2011. On September 9, 2010, the Company and the Subsidiary Guarantors (as co-borrowers) entered into the First Amendment to the Amended and Restated Credit Agreement ("First Amended Credit Agreement”) with Bank of America, N.A. (as both Administrative Agent and Lender). The First Amended Credit Agreement provides for a revolving credit facility of $100,000 (with the ability of the Company to request that the borrowing capacity be increased up to $150,000) that matures on September 9, 2015. However, if the 2014 notes have not been paid in full on or before February 15, 2014, the maturity date of the Company’s revolving credit facility will be automatically adjusted to February 15, 2014.

The First Amended Credit Agreement contains customary affirmative and negative covenants for asset-based loans that restrict future borrowings and certain transactions. The covenants include restrictions and limitations on (i) sales of assets, consolidation, merger, dissolution and the issuance of capital stock, (ii) permitted encumbrances on property, (iii) the incurrence of indebtedness, (iv) the making of loans or investments, (v) the declaration of dividends and redemptions and (vi) transactions with affiliates. As long as pro forma excess availability is at least 27.5% of the total credit facility or, if applicable, other specific conditions are met, the Company can make certain distributions and investments including (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. The Company was in compliance with all such covenants at September 25, 2011.

The First Amended Credit Agreement is secured by first-priority liens on the Company’s and its subsidiary guarantors’ inventory, accounts receivable, general intangibles, investment property and certain other property. The Company’s ability to borrow under the First 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% depending on the Company’s level of excess availability. The unused line fee under the First Amended Credit Agreement is 0.375% to 0.50% of the unused line amount.

The weighted average interest rate for the revolving credit facility borrowings for the three months ended September 25, 2011 including the effects of all interest rate swaps was 3.4%. The Company has $2,695 of standby letters of credit at September 25, 2011, none of which have been drawn upon. As of September 25, 2011 and June 26, 2011, the Company had $54,598 and $51,734 of borrowing availability under the revolving credit facility, respectively.

The following table presents the scheduled maturities of the Company’s long-term debt on a fiscal year basis:

2012	2013	2014	2015	2016	Thereafter	Total
$ 348	$ —	$ 123,722	$ —	$ 39,900	$ —	$ 163,970

Amortization charged to interest expense related to debt financing was as follows:

	For the Three Months Ended	
	September 25, 2011	September 26, 2010
Interest expense	$221	$254

13. Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	September 25, 2011	June 26, 2011
Deferred compensation plan	$1,741	$1,866
Retiree medical liability	696	696
Derivative instruments	486	408
Long-term portion of income taxes payable	868	868
Non-income related taxes	156	169
Total other long-term liabilities	$3,947	$4,007

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

The Company maintains an unfunded supplemental post-employment plan for a select group of management employees. Each participant's account is credited annually based upon a percentage of their base salary with each participant's balance adjusted quarterly to reflect returns based upon a stock market index. The amounts of (income) expense recorded for this plan within Selling, general and administrative ("SG&A") expenses for the three months ended September 25, 2011 and September 26, 2010 were ($126) and $155, respectively. Amounts are paid to participants only after termination of their employment. The retiree medical liability relates to a frozen plan that consists of the discounted future claims the Company expects to pay for certain retiree benefits based on claims history and the terms of the benefit agreements.

14. Income Taxes
The Company's income tax provision for the quarter ended September 25, 2011 resulted in tax expense of $273 at an effective rate of 48.8%. The income tax rate for the period is different from the U.S. statutory rate due to losses in tax jurisdictions for which no tax benefit could be recognized, foreign dividends taxed in the U.S. and earnings attributable to foreign operations which are taxed at rates lower than the U.S. statutory rate. The effective income tax rate can be affected over the fiscal year by the mix and timing of actual earnings from U.S. operations and foreign sources versus annual projections and changes in foreign currencies in relation to the U.S. dollar. As a result, the Company's effective tax rate may fluctuate significantly on a quarterly basis.

The Company's income tax provision for the quarter ended September 26, 2010 resulted in tax expense of $2,517 at an effective rate of 19.7%. The income tax rate for the period was different from the U.S. statutory rate due to the utilization of prior losses for which no benefit had been recognized previously, foreign dividends taxed in the U.S. and earnings attributable to foreign operations which are taxed at rates lower than the U.S. statutory rate.

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 future 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. and certain foreign subsidiaries due to negative evidence concerning the realization of those deferred tax assets in recent years. 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 net earnings in the period of release.

During the fiscal year ended June 26, 2011, the Company changed its indefinite reinvestment assertion related to approximately $26,630 of the earnings and profits held by Unifi do Brazil, Ltda. ("UDB"). During the first quarter of fiscal year 2012, the Company repatriated $7,400. The Company also changed its indefinite reinvestment assertion by an additional $13,415. The Company incorporated these changes and adjusted the deferred tax liability, net of estimated foreign tax credits to $3,756 to reflect the additional income tax that would be due as a result of the current plan to repatriate in future periods. All remaining undistributed earnings are deemed to be indefinitely reinvested and accordingly, no provision for U.S. federal and state income taxes is required to be provided thereon.

The Company is subject to income tax examinations for U.S. federal income taxes for fiscal years 2005 through 2011, for non-U.S. income taxes for tax years 2001 through 2011 and for state and local income taxes for fiscal years 2001 through 2011.

There have been no significant changes in the Company's liability for uncertain tax positions since June 26, 2011. The Company's estimate for the potential outcome for any uncertain tax issue is highly judgmental. Management believes that any reasonably foreseeable outcomes related to these matters have been adequately provided for. However, future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

15. Shareholders' Equity
No dividends have been paid in the last two fiscal years. The Indenture governing the 2014 notes and the First Amended Credit Agreement restricts the Company's ability to pay dividends or make distributions on its common stock.

Effective July 26, 2000, the Company's Board of Directors ("Board") authorized the repurchase of up to 3,333 shares of its common stock of which approximately 1,064 shares were subsequently repurchased. The repurchase program was suspended in November 2003. There is remaining authority for the Company to repurchase approximately 2,269 shares of its common stock under the repurchase plan. The repurchase plan has no stated expiration or termination date.

16. Stock Based Compensation
During the first quarter of fiscal year 2012, the Compensation Committee of the Board authorized the issuance of and the Company issued 127 stock options to certain key employees from the 2008 Unifi, Inc. Long-Term Incentive Plan ("2008 LTIP"), a plan approved by the Company's shareholders in 2008. The stock options have a service condition, vest ratably over a three year period and have ten year contractual terms. The exercise price of the options is $12.47 per share. The Company used the Black-Scholes model to estimate the weighted average grant date fair value of $7.88 per share.

During the first quarter of fiscal year 2012, the Compensation Committee of the Board authorized the issuance of and the Company issued 64 restricted stock units ("RSUs") from the 2008 LTIP to certain key employees. The RSUs are subject to a 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 vest ratably over a three year period. The RSUs will be converted into an equivalent number of shares of stock on each vesting date and distributed to the grantee, or the grantee may elect to defer the receipt of the shares of stock until separation from service. If after July 27, 2012 and prior to the final vesting date the grantee has a separation from service without cause, the remaining unvested RSUs will become fully vested and will be converted to an equivalent number of shares of stock and issued to the grantee. The Company estimated the grant-date fair value of the award to be $12.47 per RSU based on the fair value of the Company's stock at the award grant date.

The Company incurred $368 and $192 in stock based compensation expense in the first quarter of fiscal years 2012 and 2011, respectively, which was recorded to SG&A expenses with the offset to capital in excess of par value.

The Company issued 6 shares of common stock during the first quarter of fiscal year 2012 as a result of the exercise of stock options. There were no stock options exercised during the first quarter of fiscal year 2011.

17. Accumulated Other Comprehensive Income
Accumulated other comprehensive income consists of the following:

	September 25, 2011	June 26, 2011
Foreign currency translation adjustments	$6,267	$26,621
Loss on effective portion of derivative instruments	(2,023)	(1,054)
Foreign currency gain (loss) on intercompany loan	1,338	(1,791)
Accumulated other comprehensive income	$5,582	$23,776

Loss on effective portion of derivative instruments includes $1,537 and $646 of other comprehensive loss related to one of the Company's unconsolidated affiliates at September 25, 2011 and June 26, 2011, respectively.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

18. Computation of Earnings Per Share

The computation of basic and diluted income per share ("EPS") was as follows:

	For the Three Months Ended	
	September 25, 2011	September 26, 2010
Basic EPS:		
Net income	$286	$10,235
Weighted average common shares outstanding	20,086	20,057
Basic EPS	$0.01	$0.51
Diluted EPS:		
Net income	$286	$10,235
Weighted average common shares outstanding	20,086	20,057
Net potential common share equivalents – stock options and RSU's	345	322
Weighted average common shares outstanding	20,431	20,379
Diluted EPS	$0.01	$0.50
Excluded from the calculation of common share equivalents:		
Anti-dilutive common share equivalents	406	231
Excluded from the calculation of diluted shares:		
Unvested options that vest upon achievement of certain market conditions	577	583

The calculation of earnings per common share is based on the weighted average number of the Company's common shares outstanding for the applicable period. The calculation of diluted earnings per common share presents the effect of all potential dilutive common shares that were outstanding during the respective period, unless the effect of doing so is anti-dilutive.

19. Derivative Instruments and Hedging Activities

Following its established procedures and controls, the Company may use derivative financial instruments such as foreign currency forward contracts or interest rate swaps for purposes of reducing its ongoing business exposures to fluctuations in foreign currency exchange rates or interest rates. The Company does not enter into derivative contracts for speculative purposes.

Interest rate swaps:

On February 15, 2011, the Company entered into a twenty-seven month, $25,000 interest rate swap with Bank of America, N.A. to provide a hedge against the variability of cash flows (monthly interest expense payments) on the first $25,000 of LIBOR-based variable rate borrowings under the Company's revolving credit facility. The interest rate swap allows the Company to fix the LIBOR rate at 1.39%.

On August 5, 2011, the Company completed the redemption of an aggregate principal amount of $10,000 of its 2014 notes at 102.875%. In connection with the redemption, the Company entered into a twenty-one month, $10,000 interest rate swap to provide a hedge against the variability of cash flows. This interest rate swap allows the Company to fix the LIBOR rate at 0.75%.

The Company has designated these swaps as cash flow hedges and determined that the hedges have been and still are highly effective. At September 25, 2011, the amount of loss recognized in accumulated other comprehensive income for the Company's cash flow hedge derivative instruments was $486. For the fiscal quarter ended September 25, 2011, the Company did not reclassify any gains (losses) from accumulated other comprehensive income to net income and does not expect to do so during the next twelve months.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

Foreign currency forward contracts:
The Company enters into foreign currency forward contracts as economic hedges for exposures related to certain sales, inventory purchases and equipment purchases denominated in currencies that are not the functional currency of certain entities. As of September 25, 2011, the latest maturity date for all outstanding foreign currency forward contracts is during November 2011. These items are not designated as hedges by the Company and are marked to market each period and offset by the foreign exchange gains (losses) resulting from the underlying exposures of the foreign currency denominated assets and liabilities.

The fair values of derivative financial instruments were as follows:

As of September 25, 2011:		Notional Amount	USD Equivalent	Balance Sheet Location	Fair value
Foreign exchange contracts	MXN	$3,100	$253	Other current assets	$28
Interest rate swaps	USD	$35,000	$35,000	Other long-term liabilities	$(486)

As of June 26, 2011:		Notional Amount	USD Equivalent	Balance Sheet Location	Fair value
Foreign exchange contracts	MXN	$ 9,200	$770	Accrued expenses	$(2)
Interest rate swaps	USD	$ 25,000	$25,000	Other long-term liabilities	$(408)

The fair values of the Company's foreign exchange contracts and interest rate swaps are estimated by obtaining month-end market quotes for contracts with similar terms.

The effect of marked to market hedging derivative instruments was as follows:

		For the Three Months Ended	
		September 25, 2011	September 26, 2010
Derivatives not designated as hedges:	Classification		
Foreign exchange contracts – MXN/USD	Other operating (income) expense	$(29)	$18
Foreign exchange contracts – EU/USD	Other operating (income) expense	—	(238)
Total (gain) loss recognized in income		$(29)	$(220)

By entering into derivative instrument contracts, the Company exposes itself to counterparty credit risk. The Company attempts to minimize this risk by selecting counterparties with investment grade credit ratings, limiting the amount of exposure to any single counterparty and regularly monitoring its market position with each counterparty. The Company's derivative instruments do not contain any credit-risk related contingent features.

20. Fair Value of Financial Instruments and Non-Financial Assets and Liabilities
As of September 25, 2011, the Company did not have any non-financial assets or liabilities that are required to be measured at fair value on a recurring basis. The following tables present the level within the fair value hierarchy used to measure certain financial assets and liabilities accounted for at fair value on a recurring basis:

As of September 25, 2011:	Level 1	Level 2	Level 3
Assets at fair value:			
Derivatives related to foreign exchange contracts	$—	$28	$—
Total assets at fair value	$—	$28	$—
Liabilities at fair value:			
Derivatives related to interest rate swaps	—	(486)	—
Total liabilities at fair value	$—	$(486)	$—

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Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

As of June 26, 2011:	Level 1	Level 2	Level 3
Liabilities at fair value:			
Derivatives related to foreign exchange contracts	—	(2)	—
Derivatives related to interest rate swaps	—	(408)	—
Total liabilities at fair value	$—	$(410)	$—

There were no financial instruments measured at fair value that were in an asset position at June 26, 2011.

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses approximated fair value as of September 25, 2011 and June 26, 2011 because of their short-term nature. The carrying amount of the revolving credit facility approximated fair value as of September 25, 2011 and June 26, 2011 because the facility has a floating interest rate. The fair value of the Company's 2014 notes is based on the last traded price within the period and is considered a Level 2 measurement. The estimated fair values and carrying amounts outstanding, including any current portions, are presented as follows:

	September 25, 2011	June 26, 2011
2014 notes – estimated fair value	$127,267	$138,402
2014 notes – carrying amount	123,722	133,722

21. Other Operating (Income) Expense, Net

The components of other operating (income) expense, net were as follows:

	For the Three Months Ended	
	September 25, 2011	September 26, 2010
Net (gain) loss on sale of assets	$64	$(65)
Foreign currency transaction (gains) losses	(21)	364
Other, net	(84)	(56)
Other operating (income) expense, net	$(41)	$243

22. Investments in Unconsolidated Affiliates and Variable Interest Entities

Parkdale America, LLC

In June 1997, the Company and Parkdale Mills, Inc. ("Mills") entered into a Contribution Agreement that set forth the terms and conditions by which the two companies contributed all of the assets of their spun cotton yarn operations utilizing open-end and air-jet spinning technologies to create Parkdale America, LLC ("PAL"). In exchange for its contribution, the Company received a 34% ownership interest in PAL which is accounted for using the equity method of accounting. PAL's fiscal year end is the Saturday nearest to December 31 and is a limited liability company treated as a partnership for income tax reporting purposes. PAL is a producer of cotton and synthetic yarns for sale to the textile and apparel markets located throughout North and South America. PAL has 14 manufacturing facilities located primarily in North Carolina and Virginia. For its most recently completed fiscal year, PAL's five largest customers accounted for approximately 80% of total gross sales and 75% of total gross accounts receivable outstanding.

In August 2008, a federal government program commenced providing economic adjustment assistance to domestic users of upland cotton. The program offers a subsidy for cotton consumed in domestic production and the subsidy is paid the month after the eligible cotton is consumed. The subsidy must be used within eighteen months after the marketing year earned to purchase qualifying capital expenditures in the U.S. for production of goods from upland cotton. The marketing year is from August 1 to July 31. The program provides a subsidy of four cents per pound through July 31, 2012 and three cents per pound thereafter. The Company recognizes its share of PAL's income for the cotton subsidy when the cotton has been consumed and the qualifying assets have been acquired with an appropriate allocation methodology considering the dual criteria of the subsidy.

On October 28, 2009, PAL acquired certain real property and machinery and equipment, as well as entered into lease agreements for certain real property, machinery and equipment, which constitute most of the yarn manufacturing operations of Hanesbrands Inc. ("HBI"). PAL also entered into a yarn supply agreement with HBI to supply at least 95% of the yarn used in the manufacturing of its apparel products at any of its locations in North America, Central America or the Caribbean Basin for a six-year period with an option for HBI to extend the agreement for two additional three-year periods.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

On March 30, 2011, PAL amended its revolving credit facility to increase the maximum borrowing capacity from one hundred million to two hundred million dollars and extend the maturity date from October 28, 2012 to July 31, 2014. PAL's revolving credit facility charges a variable interest rate based on either the prime rate or LIBOR rate plus an applicable percentage. PAL's revolving credit facility also has covenants in place such as an annual limit on capital expenditures, a minimum fixed-charge coverage ratio and a minimum leverage ratio. PAL informed the Company that as of September 2011, PAL's outstanding borrowings on the revolving credit facility were one hundred twenty million dollars and PAL was in compliance with all debt covenants.

PAL is subject to price risk related to fixed-price yarn sales. To protect the gross margin of these sales, PAL may enter into cotton futures to manage changes in raw material costs. The derivative instruments used are listed and traded on an exchange and are thus valued using quoted prices classified within Level 1 of the fair value hierarchy. PAL may also designate certain futures contracts as cash flow hedges with the effective portion of gains and losses recorded in accumulated other comprehensive income until the underlying transactions are recognized in income. As of September 2011, PAL's accumulated other comprehensive income was comprised of losses related to futures contracts totaling $4,521. All of PAL's other derivatives not designated as hedges or the ineffective portion of any designated hedges are marked to market each period with the changes in fair value recognized in current period earnings. In addition, PAL may enter into forward contracts for certain cotton purchases, which qualify as derivative instruments. However, these contracts meet the applicable criteria to qualify for the "normal purchases or normal sales" exemption.

As of September 25, 2011, the Company's investment in PAL was $83,886 and is shown within Investments in unconsolidated affiliates in the Condensed Consolidated Balance Sheets. The reconciliation between the Company's share of the underlying equity of PAL and its investment is as follows:

Underlying equity at September 2011	$102,786
Initial excess capital contributions	53,363
Impairment charge recorded in fiscal year 2007	(74,106)
Anti-trust lawsuit against PAL in which the Company did not participate	2,652
EAP adjustments	(809)
Investment at September 2011	$83,886

U.N.F. Industries, Ltd.
In September 2000, the Company and Nilit Ltd. ("Nilit") formed a 50/50 joint venture, U.N.F. Industries Ltd. ("UNF"), for the purpose of operating nylon extrusion assets to manufacture nylon POY. UNF's eight extruders are located at Nilit's production facilities in Migdal Ha-Emek, Israel. All raw material and production services for UNF are provided by Nilit under separate supply and services agreements. All first quality production is sold to the Company. UNF's fiscal year end is December 31st and is a registered Israeli private company.

UNF America, LLC
In October 2009, the Company and Nilit America Inc. ("Nilit America") formed a 50/50 joint venture, UNF America LLC ("UNF America"), for the purpose of operating a nylon extrusion facility which manufactures nylon POY. UNF America's four extruders are located in Ridgeway, Virginia and are operated by Nilit America. All raw material and production services for UNF America are provided by Nilit America under separate supply and services agreements. All first quality production is sold to the Company. UNF America's fiscal year end is December 31st and is a limited liability company treated as a partnership for income tax reporting purposes.

In conjunction with the formation of UNF America, the Company entered into a supply agreement with UNF and UNF America whereby the Company agreed to purchase all of its first quality nylon POY requirements for texturing (subject to certain exceptions) from either UNF or UNF America. The agreement has no stated minimum purchase quantities. Pricing under this supply agreement is negotiated every six months, based on market rates. As of September 25, 2011, the Company's open purchase orders related to this agreement were $24,897.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

The Company's raw material purchases under this supply agreement consist of the following:

	For the Three Months Ended	
	September 25, 2011	September 26, 2010
UNF	$5,486	$5,953
UNF America	3,716	4,701
Total	$9,202	$10,654

As of September 25, 2011 and June 26, 2011, the Company had combined outstanding accounts payable due to UNF and UNF America of $3,346 and $4,124, respectively.

As of September 2011, the Company's combined investments in UNF and UNF America were $3,780 and are shown within Investments in unconsolidated affiliates in the Condensed Consolidated Balance Sheets. The financial results of UNF and UNF America are included in the Company's financial statements with a one month lag, using the equity method of accounting and with intercompany profits eliminated in accordance with the Company's accounting policy. The Company has determined that UNF and UNF America are variable interest entities ("VIEs"), the Company is the primary beneficiary and, under U.S. GAAP, the Company should consolidate the two entities. As the Company purchases substantially all of the output from the two entities, and, as the two entities' balance sheets constitute less than 2.0% of the Company's current assets, total assets and total liabilities, the Company has not included the accounts of UNF and UNF America in its consolidated financial statements. Other than the supply agreement discussed above, the Company does not provide any other commitments or guarantees related to either UNF or UNF America.

Repreve Renewables, LLC
In April 2010, the Company entered into an agreement with two other unaffiliated entities to form Repreve Renewables, LLC ("Renewables") and received a 40% ownership interest for its four million dollar contribution. Renewables is a development stage enterprise formed to cultivate, grow and sell biomass crops, including crop feedstock intended for use as a fuel in the production of energy as well as to provide value added processes for cultivating, harvesting or using biomass crops. Renewables has the exclusive license to commercialize FREEDOM™ Giant Miscanthus ("FGM"). FGM is a miscanthus grass strain used to convert sunlight to biomass energy. Renewables' success will depend in part on its ability to license individual growers to produce FGM and sell feedstock to those growers.

Renewables has generated net losses since its inception and, while not obligated to do so, the Company expects to make ongoing contributions to the extent necessary to continue Renewables' business. Through September 2011, the Company has made $1,477 of additional capital contributions since inception for its share of working capital and on-going operating costs.

The Company has determined Renewables is a VIE but the Company is not the primary beneficiary and therefore it does not need to be consolidated. As of September 25, 2011, the Company's $4,674 investment in Renewables is shown within Investments in unconsolidated affiliates in the Condensed Consolidated Balance Sheets and represents the Company's maximum exposure to loss.

On October 5, 2011, the Company completed a purchase transaction which gives the Company a controlling interest in Renewables. During the second quarter of fiscal year 2012, the Company will perform the necessary valuation procedures and apply the applicable purchase accounting rules which could result in an immaterial loss.

Unaudited, condensed balance sheet and income statement information for the Company's unconsolidated affiliates is as follows. As PAL is defined as significant, its information is separately disclosed.

	As of September 25, 2011		
	PAL	Other	Total
Current assets	$372,686	$11,566	$384,252
Noncurrent assets	149,852	11,150	161,002
Current liabilities	86,428	4,862	91,290
Noncurrent liabilities	133,800	—	133,800
Shareholders' equity and capital accounts	302,310	17,854	320,164
The Company's portion of undistributed earnings	14,459	937	15,396

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

	As of June 26, 2011		
	PAL	Other	Total
Current assets	$398,338	$13,405	$411,743
Noncurrent assets	155,505	9,588	165,093
Current liabilities	100,284	5,588	105,872
Noncurrent liabilities	154,054	—	154,054
Shareholders' equity and capital accounts	299,505	17,405	316,910

	For the Three Months Ended September 25, 2011		
	PAL	Other	Total
Net sales	$346,075	$10,267	$356,342
Gross profit	13,077	664	13,741
Income (loss) from operations	11,115	(201)	10,914
Net income (loss)	11,325	(245)	11,080
Depreciation and amortization	9,295	56	9,351
Cash received by PAL under EAP program	6,171	—	6,171
Earnings recognized by PAL for EAP program	5,956	—	5,956
Dividends and cash distributions received	2,005	—	2,005

	For the Three Months Ended September 26, 2010		
	PAL	Other	Total
Net sales	$209,801	$11,576	$221,377
Gross profit	27,092	2,007	29,099
Income from operations	23,910	1,262	25,172
Net income	25,393	986	26,379
Depreciation and amortization	6,523	342	6,865
Cash received by PAL under EAP program	7,124	—	7,124
Earnings recognized by PAL for EAP program	18,376	—	18,376
Dividends and cash distributions received	2,532	—	2,532

23. Restructuring Charges

On January 11, 2010, the Company announced the creation of Unifi Central America, Ltda. de C.V. ("UCA"). With a base of operations established in El Salvador, UCA serves customers primarily in the Central American region. The Company began dismantling and relocating polyester equipment from its Yadkinville, North Carolina facility to the region during the third quarter of fiscal year 2010 and completed the startup of the UCA manufacturing facility in the second quarter of fiscal year 2011. The costs incurred for equipment relocation costs to UCA and reinstalling previously idled texturing equipment to replace the manufacturing capacity at the Company's Yadkinville, North Carolina facility were charged to restructuring expense as incurred.

The components of restructuring charges were as follows:

	For the Three Months Ended	
	September 25, 2011	September 26, 2010
Equipment relocation costs	$—	$363
Reinstallation costs	—	—
Restructuring charges	$—	$363

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

24. Commitments and Contingencies
Environmental
On September 30, 2004, the Company completed its acquisition of the polyester filament manufacturing assets located in Kinston, North Carolina from INVISTA S.a.r.l. (“INVISTA”). The land for the Kinston site was leased pursuant to a 99 year ground lease (“Ground Lease”) with E.I. DuPont de Nemours (“DuPont”). Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the 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 contamination 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 transferred to the Company in the future, at which time DuPont must pay the Company for seven years of monitoring and reporting costs and the Company will assume responsibility for any future remediation and monitoring of the site. At this time, the Company has no basis to determine if and when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same.

Litigation
The Company is aware of certain 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”). Although the Company believes it has certain potential defenses to the claims, the estimate of possible losses, before considering any potential salvage values for the garments, ranges from $200 to $2,100. The Company has appropriately accrued for this contingency. It is reasonably possible that the Company’s estimate may differ from the actual claim amount; however, the Company believes any change would not be material to the financial statements.

25. Related Party Transactions
During the quarter ended September 25, 2011, the Company had sales to Cupron Medical, Inc. (“Cupron”). Mr. William J. Armfield, IV, is a member of the Company’s Board and is a current shareholder of Cupron. For a discussion of the nature of all other related party relationships see Footnote 27. “Related Party Transactions” included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 26, 2011.

Related party receivables and payables consist of the following:

	September 25, 2011	June 26, 2011
Related Party Receivables:		
Dillon Yarn Corporation	$11	$6
Cupron Medical, Inc.	95	—
American Drawtech Company, Inc.	493	506

Total related party receivables (included within Receivables, net)	$599	$512
Related Party Payables:		
Dillon Yarn Corporation	$221	$276
American Drawtech Company, Inc.	—	11
Salem Leasing Corporation	245	280
Total related party payables (included within Accounts payable)	$466	$567

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

Related party transactions were as follows:

Affiliated Entity	Transaction Type	For the Three Months Ended September 25, 2011	September 26, 2010
Dillon Yarn Corporation	Costs under Sales Service Agreement	$250	$325
Dillon Yarn Corporation	Sales	22	5
Dillon Yarn Corporation	Yarn Purchases	871	593
American Drawtech Company	Sales	1,201	538
American Drawtech Company	Yarn Purchases	22	28
Salem Leasing Corporation	Transportation Equipment Costs	753	784
Cupron Medical, Inc.	Sales	96	—

26. Business Segment Information

Each reportable segment derives its revenues as follows:

- The polyester segment manufactures recycled Chip, POY, textured, dyed, twisted and beamed yarns with sales to other yarn manufacturers, knitters and weavers that produce yarn and/or fabric for the apparel, automotive upholstery, hosiery, home furnishings, industrial and other end-use markets. The polyester segment consists of manufacturing operations in the U.S. and El Salvador.
- The nylon segment manufactures textured nylon and covered spandex yarns with sales to knitters and weavers that produce fabric for the apparel, hosiery, sock and other end-use markets. The nylon segment consists of manufacturing operations in the U.S. and Colombia.
- The international segment's products include textured polyester and various types of resale yarns. The international segment sells its yarns to knitters and weavers that produce fabric for the apparel, automotive upholstery, home furnishings, industrial and other end-use markets primarily in the South American and Asian regions. The segment includes manufacturing and sales offices in Brazil and a sales office in China.

The Company evaluates the operating performance of its segments based upon Segment Adjusted Profit which is defined as segment gross profit plus segment depreciation and amortization less segment SG&A. Segment operating profit represents segment net sales less cost of sales, restructuring and impairment charges and SG&A expenses. The accounting policies for the segments are consistent with the Company's accounting policies. Intersegment sales are accounted for at current market prices. Selected financial information for the Polyester, Nylon and International segments is presented below:

	For the Three Months Ended September 25, 2011			
	Polyester	Nylon	International	Total
Net sales to external customers	$92,528	$40,961	$37,524	$171,013
Intersegment sales	453	8	—	461
Segment adjusted profit	2,426	3,024	2,564	8,014
Segment operating profit (loss)	(2,373)	2,241	1,591	1,459
Segment depreciation and amortization	4,799	783	973	6,555
Segment assets	224,740	82,276	98,783	405,799
Capital expenditures	189	71	805	1,065

For the Three Months Ended September 26, 2010

	Polyester	Nylon	International	Total
Net sales to external customers	$85,587	$44,173	$45,332	$175,092
Intersegment sales	835	489	398	1,722
Segment adjusted profit	5,705	4,767	6,050	16,522
Segment operating profit	612	3,913	5,148	9,673
Segment depreciation and amortization	4,730	854	902	6,486
Restructuring charges	363	—	—	363
Segment assets	207,303	86,548	118,430	412,281
Capital expenditures	3,043	371	1,923	5,337

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

The $57 and $158 difference between total capital expenditures for long-lived assets and the segment total for the three months ended September 25, 2011 and September 26, 2010, respectively, relates to various, unallocated corporate projects.

Reconciliations from segment data to consolidated reporting data are as follows:

	For the Three Months Ended	
	September 25, 2011	September 26, 2010
Segment operating profit	$1,459	$9,673
(Benefit) provision for bad debts	205	(41)
Other operating (income) expense, net	(41)	243
Operating income	1,295	9,471
Interest income	(647)	(743)
Interest expense	4,380	5,269
Loss on extinguishment of debt	462	1,144
Equity in earnings of unconsolidated affiliates	(3,459)	(8,951)
Income before income taxes	$559	$12,752

	For the Three Months Ended	
	September 25, 2011	September 26, 2010
Segment depreciation and amortization	$6,555	6,486
Depreciation included in other operating (income) expense	6	3
Amortization included in interest expense	221	254
Consolidated depreciation and amortization	$6,782	$6,743

	September 25, 2011	September 26, 2010
Segment assets	$405,799	$412,281
Other current corporate assets	4,080	2,429
Unallocated corporate PP&E	9,854	10,248
Other non-current assets	3,272	3,870
Investments in unconsolidated affiliates	92,340	80,494
Consolidated assets	$515,345	$509,322

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

28. Supplemental Cash Flow Information
Cash payments for interest and taxes were as follows:

For the Three Months Ended

	September 25, 2011	September 26, 2010
Interest, net of capitalized interest	$ 778	$ 380
Income taxes, net of refunds	793	1,742

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

29. Condensed Consolidating Financial Statements
In accordance with the Indenture governing the Company's 2014 notes, certain of the Company's subsidiaries have guaranteed the notes, jointly and severally, on a senior secured basis.

The following presents the condensed consolidating financial statements separately for:

- Parent company, the issuer of the guaranteed obligations;
- Guarantor subsidiaries, on a combined basis, as specified in the Indenture;
- Non-guarantor subsidiaries, on a combined basis;
- Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions, (b) eliminate intercompany profit in inventory, (c) eliminate investments in its subsidiaries and (d) record consolidating entries; and
- Parent company, on a consolidated basis.

Each subsidiary guarantor is 100% owned by Unifi, Inc. or its wholly-owned subsidiary, Unifi Manufacturing, Inc. and all guarantees are full and unconditional. The non-guarantor subsidiaries predominantly represent the foreign subsidiaries which do not guarantee the 2014 notes. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements. Supplemental financial information for the Company and its guarantor subsidiaries and non-guarantor subsidiaries for the 2014 notes is presented below.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

Balance Sheet Information as of September 25, 2011:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$2,029	$(1,883)	$ 19,675	$—	$19,821
Receivables	—	69,213	26,565	—	95,778
Intercompany accounts receivable	125,409	(118,485)	946	(7,870)	—
Inventories	—	96,063	39,913	—	135,976
Income taxes receivable	575	—	194	—	769
Deferred income taxes	2,296	—	2,094	—	4,390
Other current assets	99	990	3,752	—	4,841
Total current assets	130,408	45,898	93,139	(7,870)	261,575
Property, plant and equipment, net	8,833	109,791	23,173	—	141,797
Intangible assets, net	—	11,027	—	—	11,027
Investments in unconsolidated affiliates	—	83,886	8,454	—	92,340
Investments in consolidated subsidiaries	431,698	—	—	(431,698)	—
Intercompany notes receivable	—	—	19,706	(19,706)	—
Other non-current assets	3,224	3,048	2,334	—	8,606
Total assets	$574,163	$253,650	$ 146,806	$(459,274)	$515,345
LIABILITIES AND SHAREHOLDERS' EQUITY					
Accounts payable	$84	$40,107	$ 5,845	$—	$46,036
Intercompany accounts payable	120,085	(119,676)	7,456	(7,865)	—
Accrued expenses	5,426	7,855	2,727	—	16,008
Income taxes payable	—	—	767	—	767
Current portion of long-term debt	—	348	—	—	348
Total current liabilities	125,595	(71,366)	16,795	(7,865)	63,159
Long-term debt	163,622	—	—	—	163,622
Intercompany notes payable	—	—	19,706	(19,706)	—
Other long-term liabilities	486	2,437	1,024	—	3,947
Deferred income taxes	2,296	—	157	—	2,453
Total liabilities	291,999	(68,929)	37,682	(27,571)	233,181
Shareholders'/ invested equity	282,164	322,579	109,124	(431,703)	282,164
Total liabilities and shareholders' equity	$574,163	253,650	146,806	(459,274)	$515,345

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements - (Continued)
(amounts in thousands, except per share amounts)

Balance Sheet Information as of June 26, 2011:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$1,656	$323	$ 25,511	$—	$27,490
Receivables	—	69,800	30,375	—	100,175
Intercompany accounts receivable	3	6,755	500	(7,258)	—
Inventories	—	84,193	50,690	—	134,883
Income taxes receivable	419	—	159	—	578
Deferred income taxes	3,482	—	2,230	—	5,712
Other current assets	122	588	4,521	—	5,231
Total current assets	5,682	161,659	113,986	(7,258)	274,069
Property, plant and equipment, net	8,889	114,510	27,628	—	151,027
Intangible assets, net	—	11,612	—	—	11,612
Investments in unconsolidated affiliates	—	82,955	8,303	—	91,258
Investments in consolidated subsidiaries	456,288	—	—	(456,288)	—
Intercompany notes receivable	—	—	16,545	(16,545)	—
Other non-current assets	3,619	3,048	2,743	—	9,410
Total assets	$474,478	$373,784	$ 169,205	$(480,091)	$537,376
LIABILITIES AND SHAREHOLDERS' EQUITY					
Accounts payable	$164	$35,207	$ 7,471	$—	$42,842
Intercompany accounts payable	409	—	6,849	(7,258)	—
Accrued expenses	2,037	11,717	3,741	—	17,495
Income taxes payable	—	—	421	—	421
Current portion of long-term debt	—	342	—	—	342
Total current liabilities	2,610	47,266	18,482	(7,258)	61,100
Long-term debt	168,322	—	—	—	168,322
Intercompany notes payable	—	—	16,545	(16,545)	—
Other long-term liabilities	409	2,562	1,036	—	4,007
Deferred income taxes	3,482	—	810	—	4,292
Total liabilities	174,823	49,828	36,873	(23,803)	237,721