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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 29, 2003

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. Employer
Identification No.)

P.O. Box 19109 – 7201 West Friendly Avenue
Greensboro, NC
(Address of principal executive offices)

27419-9109
(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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicated by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of December 27, 2002, the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant was \$253,772,733.

Number of shares outstanding as of September 2, 2003: 52,643,352

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the Annual Meeting of the Shareholders of Unifi, Inc., to be held on October 22, 2003, are incorporated by reference into Part III.

Exhibits, Financial Statement Schedules and Reports on Form 8-K index is located on pages 59 through 61.

PART I

Item 1. *Business*

General Business Development

Unifi, Inc., a New York corporation formed in 1969, together with its subsidiaries, hereinafter set forth, (the "Company" or "Unifi"), is a diversified producer and processor of textile yarns with manufacturing operations in the U.S., Ireland, the U.K. and South America. The Company is primarily engaged in the processing of synthetic yarns in two business segments, polyester and nylon. The polyester segment is comprised of textured, dyed, twisted and beamed yarns with sales to knitters and weavers that produce fabrics for the apparel, automotive and furniture upholstery, home furnishings, industrial and other end use markets. The nylon segment is comprised of textured nylon and covered spandex products with sales to knitters and weavers that produce fabrics for the apparel, hosiery, sock and other end use markets. See Footnote 2 "Acquisitions and Divestures" and Footnote 11 "Investment in Unconsolidated Affiliates" of this Annual Report on Form 10-K (the "Report") for information concerning recent mergers, acquisitions, alliances and consolidations of the Company's business.

Financial Information About Segments

See Footnote 9 "Business Segments, Foreign Operations and Concentrations of Credit Risk" of this Report for further information regarding the financial information about these segments.

Description of Business

The Company processes synthetic polyester and nylon yarns. The texturing process, which is common to both polyester and nylon, involves the processing of partially oriented yarn ("POY"), which is either natural or solution dyed raw polyester or natural nylon filament fiber. POY is made from small polymer beads that are melted and extruded through microscopic holes to form a single filament. Texturing POY involves the use of high-speed machines to draw heat and twist the POY to produce yarn having various physical characteristics, depending on its ultimate end use. This process gives the yarn greater bulk, strength, stretch, consistent dyeability and a softer feel, thereby making it suitable for use in knitting and weaving of fabrics. The polyester and nylon yarns produced by the Company can be sold externally or further processed internally. Additional processing for our polyester segment includes package dyeing, twisting and beaming. Package dyeing allows the Company to match customer specific color requirements for yarns sold into the automotive, home furnishings and apparel markets. Twisting involves wrapping two filament yarns together, which can be sold for such uses as sewing thread, home furnishings and apparel. Beaming places both textured yarn and unprocessed POY on beams to be used by customers in knitting and weaving applications. Further processing for the nylon segment mostly includes covering, which involves the wrapping or air entangling of filament or spun yarn around a core yarn. This process enhances a fabric's ability to stretch, recover its original shape, and resist wrinkles.

Sources and Availability of Raw Materials: Effective June 1, 2000, Unifi and E. I. DuPont de Nemours and Company ("DuPont"), began operating their America's manufacturing alliance (the "Alliance") to produce polyester filament yarn. The objective of the Alliance is to reduce operating costs through collectively planning and operating both companies' POY facilities as a single production unit, although Unifi and DuPont continue to own their respective manufacturing facilities. Unifi's manufacturing facility is located in Yadkinville, North Carolina and DuPont's remaining facility is in Kinston, North Carolina. The resulting asset optimization, along with the sharing of manufacturing technologies, are intended to result in significant quality and yield improvements and product innovations. See Footnote 16 "Alliance" of this Report for further information.

See Part I, Item 3. "Legal Proceedings" for further discussion regarding the results of recent arbitration matters regarding the Alliance.

The primary third party suppliers of POY to the Company's polyester segment are DuPont, Nanya Plastics Corp. of America ("Nanya") and Reliance Industries, Ltd. The majority of Company POY for domestic use is produced by the Alliance. In addition, the Company has a polyester POY manufacturing facility in Ireland. The production of POY is comprised of two primary processes, polymerisation (performed in Ireland only) and spinning (performed in both Ireland and Yackinville). The polymerisation process is the production of polymer by a chemical reaction involving terephthalic acid and ethylene glycol, which are combined to form chip. The spinning process involves the extrusion and melting of chip to form molten polymer. The molten polymer is then extruded through spinnerettes to form continuous multi-filament raw yarn. Raw materials purchased to manufacture POY are supplied by Nanya for domestic production and by DuPont, BP Chemicals and Dow Chemical for our Irish operation.

The primary suppliers of POY to the Company's nylon segment are U.N.F. Industries Ltd (U.N.F.), DuPont and Universal Premier Fibers LLC (formerly Cookson Fibers, Inc.). U.N.F. is a 50/50 joint venture formed on September 27, 2000, between Unifi and Nilit Ltd., located in Israel. The joint venture produces approximately 20.0 million pounds of nylon POY at Nilit's manufacturing facility in Migdal Ha — Emek, Israel. Production and shipping of POY from this facility began in March 2001. The nylon POY production is being utilized in the Company's domestic nylon texturing and covering operations.

Although the Company is heavily dependent upon a limited number of suppliers, the Company has not had and does not anticipate having any significant difficulty in obtaining its raw polyester and nylon POY or raw materials used to manufacture polyester POY.

Patents, Trademarks and Licenses: The Company currently has several patents and registered trademarks, none of which it considers material to either reporting segment or its business taken as a whole.

Working Capital Commitments, Sales Return Policies and Customer Payment Terms: Both of the Company's reporting segments provide, for specific customers, raw yarn consignment arrangements to warehouse inventory at or near the customers' manufacturing locations to ensure such customers a readily available source of raw materials. Inventory at these locations remains the property of the Company until such time that these customers consume the goods for use in their manufacturing processes or, in certain cases, after an agreed upon period of time has elapsed at which time the goods are automatically sold and title to such goods passes to the customer. Both the polyester segment and the nylon segment also have certain agreements to purchase raw materials and supplies from certain vendors to ensure availability of materials to use in the manufacturing of Company products. The Company does not believe any of these working capital arrangements are material to either reporting segment or to the Company taken as a whole.

Sales return practices are typically developed and enforced by the Company or segment management and generally provide for the return of yarn that is off-quality or subsequently deemed not suitable for a particular end use. In addition, rebates may be offered to specific large volume customers for purchasing certain quantities of yarn over a prescribed time period. The Company provides for allowances associated with both returns and rebates in the same accounting period the sales are recognized in income. Allowances for returns are based on currently available information or historical experience and, for rebates, such allowances are calculated based on sales to customers with negotiated rebate agreements with the Company.

Customer payment terms are generally consistent for both the Company's reporting segments and are usually based on prevailing industry practices for the sale of yarn domestically or internationally. In certain cases, payment terms are subject to further negotiation between the Company and individual customers based on specific circumstances impacting the customer. This may entail the extension of payment terms or negotiation of situation specific payment plans. The Company does not believe that any such deviations from normal payment terms are significant to either reporting segment or to the Company taken as a whole.

Customers: The Company, in fiscal year ended June 29, 2003, sold its polyester yarns to approximately 1,360 customers and its nylon yarns to approximately 250 customers. Neither the polyester reporting segment nor the nylon reporting segment had sales to any one customer in fiscal year 2003 either individually or combined (for shared customers) in excess of 10% of the Company's consolidated revenues. However, both

the Poly and Nylon segments each have one customer that exceeds 10% of net sales for the respective business segment.

Due to the additional raw material and manufacturing costs incurred to produce certain yarns and the stringent quality and time sensitivity of the end-use markets these yarns are sold into for the polyester segment (for example, dyed yarns used in the automotive and furniture markets), sales prices are higher, on average, for these items than for other polyester products used in different end-use applications. Gross margins generally compare favorably for these items absent any significant quality claims which are more prevalent in automotive and home furnishings end uses. Consequently, the loss of customers that purchase significant volumes of dyed yarns could have a significant effect on the operating income of the polyester segment and the consolidated Company.

Backlog and Seasonality of Business: The Company generally sells its products on an order-by-order basis for both the polyester and nylon reporting segments. Changes in economic indicators and consumer confidence levels can have a significant impact on sales at retail. Deviations between expected sales and actual consumer demand result in significant adjustments to desired inventory levels and, in turn, replenishment orders placed with suppliers. This changing demand signal ultimately works its way through the supply chain and impacts the Company. The end result is typically the absence of long-term sales contracts between the Company and its customers even in situations where yarn with unique characteristics is sold to one or very few customers. For substantially all customer orders including those involving more customized yarns, the Company manufactures and ships yarn in accordance with firm orders received from customers specifying yarn type and delivery dates. As a result, the Company does not track unfilled orders for purposes of determining backlog but rather to routinely reconfirm or update the status of potential orders. Consequently, backlog is generally not applicable to the Company. In addition, the Company does not consider its products to be of a seasonal nature.

Competitive Conditions: The textile industry in which the Company currently operates is keenly competitive. The Company processes and sells both high-volume commodity products and more specialized yarns both domestically and internationally into many end-use markets. Pricing is highly competitive with innovation, product quality and customer service being essential for differentiating the competitors within the industry. Product innovation gives our customers competitive advantages, while product quality is an important factor for improving our customers' manufacturing efficiencies. The Company's polyester and nylon segments compete in a worldwide market with a number of other foreign and domestic producers of such yarns. In the sale of polyester filament yarns, major domestic competitors are Dillon Yarn Company, Inc., Spectrum Dyed Yarns, Inc., KOSA and Teijin AKRA, S.A. de C.V.; and in the sale of nylon yarns, major domestic competitors are Sapona Manufacturing Company, Inc., McMichael Mills, Inc. and Worldtex, Inc. Additionally, there are numerous foreign competitors that not only sell polyester and nylon yarns in the United States but also import foreign sourced fabric and apparel into the United States and other countries in which the Company does business which adversely impacts the sale of Company polyester and nylon yarns. General economic conditions, such as interest rates, currency exchange rates and inflation rates that exist in different countries have a significant impact on the Company's competitiveness, as do various country-to-country trade agreements and restrictions.

Research and Development: The estimated amount spent during each of the last three fiscal years on Company-sponsored and customer-sponsored research and development activities is considered immaterial.

Compliance with Government Environmental Regulations: Management believes that the operation of the Company's production facilities and the disposal of waste materials are substantially in compliance with applicable federal, state and local laws and regulations and that there are no material ongoing or anticipated capital expenditures associated with environmental control facilities necessary to remain in compliance with such provisions. The Company incurs normal operating costs associated with the discharge of materials into the environment but does not believe that these costs are material or inconsistent with other domestic competitors.

Employees: The number of full-time active employees of the Company is approximately 4,500.

Financial Information about Geographic Areas

See Footnote 9 "Business Segments, Foreign Operations and Concentrations of Credit Risk" of this Report for further information regarding the financial information about geographic areas.

Available Information

The Company's Internet address is: www.unifi-inc.com. Copies of the Company's reports filed with the Securities and Exchange Commission ("Commission") may be obtained without charge by accessing the Company's web site as soon as practicable after such material is electronically filed with or furnished to the Commission or by writing Mr. Willis C. Moore at Unifi, Inc. P.O. Box 19109 Greensboro, North Carolina 27419-9109.

Item 2. Properties

Following is a summary of principal properties owned or leased by the Company:

Polyester Segment Properties

Domestic:

Yadkinville, North Carolina — six plants and two warehouses
Reidsville, North Carolina — one plant
Staunton, Virginia — one plant and one warehouse
Fort Payne, Alabama — one central distribution center

Foreign:

Letterkenny, Ireland — four plants
Carrickfergus, Ireland — two warehouses
Manchester, England — one plant including administration offices
Alfenas, Brazil — one plant and one warehouse
Sao Paulo, Brazil — one corporate office

Nylon Segment Properties

Domestic:

Madison, North Carolina — one plant and three warehouses
Mayodan, North Carolina — four plants

Foreign:

Bogota, Colombia — one plant

In addition to the above properties, the corporate administrative office for both segments is located at 7201 West Friendly Ave. in Greensboro, North Carolina. Such property consists of a building containing approximately 100,000 square feet located on a tract of land containing approximately 9 acres. This property was purchased at fair market value from the Unifi, Inc. Retirement Savings Plan in August 2002, prior to which, the Company leased this property from the Plan.

All of the above facilities are owned in fee simple, with the exception of two United States plants, one of which is leased from Bank of America Leasing and Capital LLC pursuant to a Sales-leaseback Agreement entered on May 20, 1997, as amended; the second of which is leased pursuant to a lease agreement entered into with Glen Raven, Inc. ("Glen Raven"); two warehouses in Carrickfergus, Ireland; the office in Sao Paulo, Brazil; and the plant and office location in Manchester, England. Management believes all the properties are well maintained and in good condition. In fiscal year 2003, the Company's manufacturing plants in the U.S. and Ireland operated moderately below capacity. Accordingly, Management does not perceive any capacity constraints in the foreseeable future.

The Company leases sales offices and/or apartments in New York; Coleshill, England; Oberkotzau, Germany; Lyon, France Desenzano, Italy, and Hong Kong, China. The sales office in Desenzano, Italy was closed at the end of the fiscal year.

The Company also leases two manufacturing facilities to others, one of which is leased to a joint venture in which the Company is a 50% owner.

Item 3. Legal Proceedings

As described under "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Company and DuPont entered into a manufacturing Alliance in June 2000 to produce partially oriented polyester filament yarn. DuPont and the Company have had discussions regarding the Alliance and each party alleged that the other was in breach of material terms of their agreement.

On or about February 5, 2002, the Company received a Demand For And Notice Of Arbitration from DuPont (the "Notice"), alleging, among other things, breach of contract, quantum meruit/unjust enrichment, and breach of the implied covenant of good faith and fair dealing. DuPont's claims approximated to \$85.0 million, injunctive relief and, absent a satisfactory cure by Unifi, a declaratory judgment that the Company was in "substantial breach" of the Alliance Agreements, which if allowed would permit DuPont to terminate the Alliance and exercise its right to sell ("Put") its U.S. polyester filament business to the Company for a purchase price within a range of \$300.0 million to \$600.0 million, as set forth in the Alliance Agreements.

On or about April 1, 2002, the Company filed an Answer and Counterclaims to the Notice denying DuPont's claims and asserting certain counterclaims, including among others, a request for an accounting, breach of contract, breach of the implied covenant of good faith and fair dealing, fraud, negligent misrepresentation, violation of the North Carolina Unfair and Deceptive Trade Practices Act, and punitive damages. Unifi also asked the arbitrators to issue a declaratory judgment declaring the extent and scope of Unifi's future obligations under the Put option considering DuPont's breach of its "obligations and undertakings" in the Alliance Agreements thereby resulting in a "Material Adverse Effect" on the business which is a failure of a condition precedent to the Put.

On or about May 15, 2002, the arbitration panel (the "Panel") issued its Initial Pre-Hearing Order setting the initial scheduling for the arbitration and dismissing DuPont's claim for quantum meruit/unjust enrichment. The Panel also dismissed Unifi's counterclaims for an accounting, fraud, negligent misrepresentation, violation of the North Carolina Unfair and Deceptive Trade Practices Act, and punitive damages.

On October 4, 2002, in response to a Pre-Hearing Order of the Arbitration Panel, the Company received information from E.I. DuPont De Nemours and Company ("DuPont") concerning the damages alleged in connection with the previously disclosed arbitration proceeding relating to their POY Manufacturing Alliance (the "Alliance"). DuPont alleged damages from its previous breach of contract claims and certain previously unasserted claims during the course of the Alliance from June 1, 2000 through September 30, 2002 of approximately \$85.0 million.

Of these damages, approximately \$71.0 million related to DuPont's contention that after creation of the Alliance, until and unless the Alliance assets are running at full capacity, Unifi should buy all of its external POY needs from DuPont, thus, taking business away from Unifi's other third party POY suppliers. Unifi does not agree that it was or is obligated to purchase these volumes of POY from DuPont. Had Unifi purchased these volumes of POY from DuPont, the Company believes that the prices it would have paid DuPont for such POY purchases would have been approximately at or below the prices it actually paid to its other third party POY suppliers. The remaining damages asserted by DuPont related to an alleged approximately \$8.0 million issue regarding capacity utilization in the Alliance manufacturing facilities and approximately \$6.0 million in interest.

Scheduled arbitration hearings concluded on January 23, 2003 and the Company received, in the March and June quarters of the 2003 fiscal year, orders from the Arbitration Panel stating that Unifi had not committed a "substantial breach" of the Alliance agreements, and consequently DuPont cannot terminate the Alliance or exercise its right to sell ("Put") its U.S. polyester filament business to the Company at this time.

Additionally, the Arbitration Panel determined that DuPont did not breach its "obligations and undertakings" thereby resulting in no "material adverse effect", each as defined in the Alliance agreements, on the POY business. Accordingly, the terms of the Put exercisable by DuPont in June 2005 remain in effect, as described in the Alliance agreements.

Additionally, with respect to DuPont's previously disclosed claims for approximately \$85.0 million and Unifi's counterclaims, the Arbitration Panel ruled that the Company had violated certain provisions of the Alliance agreements and that DuPont had misinterpreted certain provisions of the Alliance agreements.

The Arbitration process concluded in June 2003 and, as a result, upon reviewing submissions from both companies, the Arbitration Panel awarded damages to Dupont, inclusive of interest, in the amount of approximately \$16.0 million. Such damages were paid by the Company to Dupont in June 2003. The Company has also included arbitration expenses, previously included in selling, general and administrative expenses, as part of its arbitration costs and expenses in its Consolidated Statements of Operations. Such expenses amounted to \$3.2 million and \$1.1 million for the fiscal years ended June 29, 2003 and June 30, 2002, respectively.

The Arbitration Panel also reaffirmed its decision to dismiss \$17.6 million of the aforementioned DuPont claim, as this claim was not properly brought before the Arbitration Panel. However, DuPont continues to pursue collection of this claim. The Company continues to deny these assertions.

Item 4. *Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of security holders during the fourth quarter for the fiscal year ended June 29, 2003.

PART II

Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters*

The Company's common stock is listed for trading on the New York Stock Exchange under the symbol "UFI". The following table sets forth the range of high and low closing prices of Unifi's common stock as reported on the NYSE Composite Tape.

	High	Low
Fiscal year 2002:		
First quarter ended September 23, 2001	\$10.02	\$7.04
Second quarter ended December 23, 2001	\$ 9.15	\$6.45
Third quarter ended March 24, 2002.	\$ 8.90	\$6.75
Fourth quarter ended June 30, 2002.	\$11.25	\$8.41
Fiscal year 2003:		
First quarter ended September 29, 2002	\$10.09	\$6.20
Second quarter ended December 29, 2002	\$ 6.98	\$4.84
Third quarter ended March 30, 2003.	\$ 6.08	\$4.37
Fourth quarter ended June 29, 2003.	\$ 7.02	\$4.32

As of September 2, 2003, there were 650 record holders of the Company's common stock. A significant number of the outstanding shares of common stock which are beneficially owned by individuals and entities are registered in the name of Cede & Co. Cede & Co. is a nominee of The Depository Trust Company, a securities depository for banks and brokerage firms. The Company believes that there are approximately 3,900 beneficial owners of its common stock.

Effective July 16, 1998, the Board of Directors of the Company terminated the previously established policy of paying cash dividends equal to approximately 30% of the Company's after tax earnings of the previous fiscal year. Consequently, no dividends have been paid in the past five fiscal years.

At its meeting on April 24, 2003, the Company's Board of Directors reinstated the Company's previously authorized stock repurchase plan. There is remaining authority for the Company to repurchase approximately 7.4 million shares of its common stock under the repurchase plan.

Item 6. Selected Financial Data

	June 29, 2003 (52 Weeks)	June 30, 2002 (53 Weeks)	June 24, 2001 (52 Weeks)	June 25, 2000 (52 Weeks)	June 27, 1999 (52 Weeks)
(Amounts in thousands, except per share data)					
Summary of Operations:					
Net sales	\$ 849,116	\$ 914,716	\$ 1,131,157	\$ 1,291,435	\$ 1,262,278
Cost of sales	777,812	840,164	1,034,044	1,127,864	1,087,728
Gross profit	71,304	74,552	97,113	163,571	174,550
Selling, general and administrative expense	53,676	49,964	62,786	58,063	55,338
Provision for bad debts	3,936	6,285	8,202	8,694	1,129
Interest expense	19,900	22,956	30,123	30,294	27,459
Interest income	(1,883)	(2,559)	(2,549)	(2,772)	(2,399)
Other (income) expense	(1,350)	3,239	8,077	1,052	440
Equity in (earnings) losses of unconsolidated affiliates	(10,627)	1,704	(2,930)	2,989	(4,214)
Minority interest	4,769	—	2,590	9,543	9,401
Employee severance and related charges	16,893	—	7,545	—	—
Arbitration costs and expenses	19,185	1,129	—	—	—
Alliance plant closure costs (recovery)	(3,486)	—	15,000	—	—
Asset impairments and write downs	—	—	24,541	—	—
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	(29,709)	(8,166)	(56,272)	55,708	87,396
Provision (benefit) for income taxes	(2,532)	(2,092)	(11,598)	17,675	28,369
Income (loss) before cumulative effect of accounting change	(27,177)	(6,074)	(44,674)	38,033	59,027
Cumulative effect of accounting change, net of tax	—	37,851	—	—	2,768
Net income (loss)	\$ (27,177)	\$ (43,925)	\$ (44,674)	\$ 38,033	\$ 56,259
Per Share of Common Stock:					
Income (loss) before cumulative effect of accounting change (diluted)	\$ (.51)	\$ (.11)	\$ (.83)	\$.65	\$.97
Cumulative effect of accounting change (diluted)	—	(.71)	—	—	(.04)
Net income (loss) (diluted)	\$ (.51)	\$ (.82)	\$ (.83)	\$.65	\$.93
Balance Sheet Data:					
Working capital	\$ 183,973	\$ 167,468	\$ 66,038	\$ 15,604	\$ 216,897
Gross property, plant and equipment	1,214,915	1,179,770	1,209,927	1,250,470	1,231,013
Total assets	988,136	1,011,463	1,137,319	1,354,764	1,365,840
Long-term debt and other obligations	259,395	280,267	259,188	261,830	478,898
Shareholders' equity	479,748	498,040	540,543	622,438	646,138

The Arbitration costs and expenses include damages awarded to DuPont and all legal and related professional fees associated with the arbitration process. See Part I, Item 3 "Legal Proceedings," for further information.

The 2002 fiscal year cumulative effect of accounting change represents the write-off of goodwill associated with our nylon reporting segment. See Footnote 3 "Cumulative Effect of Accounting Change" of this Report for further information. The cumulative effect of accounting

change for fiscal year 1999 involved the write-off of previously capitalized reengineering costs associated with software development.

The working capital and long-term debt and other obligations line items at June 24, 2001, reflect the classification of the outstanding balance under the revolving line of credit of \$6.5 million and the accounts

receivable securitization of \$70.1 million as current liabilities, pending refinancing of these obligations, which occurred on December 7, 2001.

The working capital and long-term debt and other liabilities line items at June 25, 2000, reflect the classification of the outstanding balance under the revolving line of credit of \$211.5 million as a current liability as this facility was scheduled to mature in April 2001. This line of credit was subsequently refinanced in December 2000.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and Footnotes included elsewhere in this Annual Report on Form 10-K. The discussion contains forward-looking statements that reflect management's current expectations, estimates and projections. Actual results for the Company could differ materially from those discussed in the forward-looking statements. Factors that could cause such differences are discussed in "Forward-Looking Statements" below in this section and elsewhere in this Annual Report on Form 10-K.

Review of Fiscal Year 2003 Results of Operations (52 Weeks) Compared to Fiscal Year 2002 (53 Weeks)

Following is a summary of operating income by segment for fiscal years 2003 and 2002, as reported regularly to the Company's management:

	Polyester	Nylon	Total
(Amounts in thousands)			
Fiscal 2003			
Net sales	\$624,773	\$224,343	\$ 849,116
Cost of sales	563,066	214,200	777,266
Selling, general and administrative	39,571	12,719	52,290
Segment operating income (loss)	<u>\$ 22,136</u>	<u>\$ (2,576)</u>	<u>\$ 19,560</u>
Fiscal 2002			
Net sales	\$662,770	\$ 251,986	\$ 914,756
Cost of sales	605,898	236,986	842,884
Selling, general and administrative	37,115	10,243	47,358
Segment operating income	<u>\$ 19,757</u>	<u>\$ 4,757</u>	<u>\$ 24,514</u>

As described in Consolidated Financial Statements Footnote 9 "Business Segments, Foreign Operations and Concentrations of Credit Risk", the adjustments to revenues and expenses required to reconcile the operating segments to consolidated results of operations are comprised primarily of intersegment sales and cost of sales eliminations, fiber costing, the provision for bad debts and certain unallocated manufacturing and selling, general and administrative expenses.

Polyester Operations

Fiscal 2003 polyester net sales decreased \$38.0 million, or 5.7% compared to fiscal 2002. The decrease from fiscal year 2002 is primarily attributable to a continuing reduction of average unit prices and volumes as the effects of the weak economy and reduced consumer spending impacted textile and apparel manufacturers. Additionally, the importation of fabric and apparel primarily from Asia into the domestic market continues to erode the business of our U.S. based customers. For fiscal year 2003, global polyester sales volumes and average unit prices declined approximately 2.0% and 3.8%, respectively. Domestically, polyester sales volumes declined 2.0% while average unit prices declined approximately 6.2%. Sales from our Ireland operation, on a local currency basis, declined approximately 9.2%, which is primarily attributable to a reduction in volumes of 13.4%. The movement in currency exchange rates from 2002 to 2003 positively affected net sales translated to U.S. dollars for the Ireland operations by \$13.1 million. Sales from our dyeing operation in England declined

5.4% over the prior year due to a 15.1% decrease in unit volume. Sales from our Brazilian texturing operation, on a local currency basis, increased 42.6% over the prior year due primarily to sales price adjustments for changes in the inflation index which were significant during the fiscal year and due to a 5.6% increase in volumes. The impact on net sales from this operation on a U.S. dollar basis as a result of the change in currency exchange rate was a decrease of \$26.6 million.

Gross profit on sales for our polyester operations increased \$4.8 million, or 8.5%, over fiscal year 2002, while gross margin (gross profit as a percentage of net sales) improved from 8.6% in fiscal year 2002 to 9.9% in fiscal year 2003. The improvement over the prior year is primarily attributable to a reduction in fixed and variable manufacturing costs which were 32.2% of net sales in fiscal year 2003 compared to 37.1% of net sales in fiscal year 2002. In addition, the Company recognized, as a reduction of cost of sales, cost savings and other benefits from the Dupont Alliance of \$34.6 million and \$33.8 million for the fiscal years ended June 29, 2003 and June 30, 2002, respectively. Offsetting these improvements, fiber cost increased as a percent of net sales from 56.8% in fiscal year 2002 to 61.2% in fiscal year 2003.

Selling, general and administrative expenses for this segment increased \$2.5 million from 2002 to 2003. This increase was primarily due to an increase in professional fees associated with the cost reduction plan implemented in April 2003, an increase in training expenses related to the start-up of the Company's Unifi University training initiative, and an increase in insurance premiums. While the methodology to allocate domestic selling, general and administrative costs remained consistent between fiscal year 2002 and fiscal year 2003, the percentage of such costs allocated to each segment are determined at the beginning of every year based on specific cost drivers. The polyester segment's share of such costs for 2003 decreased approximately 1.8% as compared to 2002.

Our international polyester pre-tax results of operations decreased significantly over the prior year. Pre-tax losses of the polyester segment's European operations for fiscal year 2003 declined by \$8.3 million over fiscal 2002. This is primarily attributable to the cost reduction initiative that the Company implemented in fiscal 2003 and the resulting \$6.3 million charge recorded for employee severance in the fourth quarter. Pre-tax results of operations for the polyester segment's Brazilian location improved \$6.3 million in fiscal year 2003 over fiscal 2002. This improvement in the Brazilian operations reflects improved manufacturing efficiencies, an expanded customer base and continued efforts to increase sales of value-added products.

Nylon Operations

Nylon net sales decreased \$27.6 million, or 11.0% in fiscal 2003 compared to fiscal 2002. Unit volumes for fiscal 2003 decreased by 8.2%, while average sales prices, based on product mix, declined 3.0%. The reductions in sales volume and price continue to be primarily attributable to slower sales at retail resulting from the uncertain economy and consumer spending. Additionally, importation of fabric and apparel into the domestic market continues to erode the business of our U.S. based customers.

Nylon gross profit decreased \$4.9 million, or 32.4% in 2003 and gross margin decreased from 6.0% in 2002 to 4.5% in 2003. This was primarily attributable to reductions in per unit sales prices in excess of reduced unit costs for raw materials. Fixed and variable manufacturing costs remained constant at approximately 30.2% of net sales.

Selling, general and administrative expense for the nylon segment increased \$2.5 million in fiscal 2003. This increase is similar to the increase realized in the Polyester segment. See further discussion on selling, general and administrative expenses under the polyester segment above for further explanation.

Consolidated Operations

Selling, general and administrative expenses for fiscal year 2003 that were not allocated to the segments totaled approximately \$1.4 million. These unallocated selling, general and administrative expenses primarily include costs and expenses of Unifi Asia, Ltd., a wholly-owned subsidiary located in Hong Kong.

For the year ended June 29, 2003, the Company recorded a \$3.9 million provision for bad debts. This compares to \$6.3 million recorded in the prior year. Fiscal year 2003 continued to be a challenging year for the

U.S. textile industry, particularly in the apparel sector while the financial viability of certain customers continues to require close management scrutiny in these difficult economic and industry conditions. Management believes that its reserve for uncollectible accounts receivable is adequate.

Interest expense decreased from \$23.0 million in fiscal 2002 to \$19.9 million in fiscal 2003. The decrease in interest expense is a function of both lower levels of debt and lower weighted average interest rates throughout fiscal year 2002 compared to the preceding year. The Company had no outstanding borrowings on its domestic bank line at June 29, 2003, and has had no borrowings on the credit facility since October 3, 2002. At the end of the prior year, the Company had \$23.0 million outstanding in funded bank debt. The weighted average interest rate of Company debt outstanding at June 29, 2003 and June 30, 2002 was 6.3%. Interest income decreased from \$2.5 million in 2002 to \$1.9 million in 2003 due mostly to a reduction in the interest rate earned by the Brazilian operation on its bank deposits.

Other income/expense changed from \$3.2 million expense in 2002 to \$1.3 million of income in 2003. The current year includes the recognition in income of non-refundable fees collected in the amount of \$1.0 million associated with our technology license agreement with Tuntex (Thailand). The prior year expense includes net losses from the sale and write-down to net realizable value of property and equipment and other investments of \$3.0 million.

Equity in the net income, to the extent recognized, of our equity affiliates, Parkdale America, LLC. (the "LLC"), UNIFI-SANS Technical Fibers, LLC ("UNIFI-SANS") and U.N.F. totaled \$10.6 million in fiscal 2003 compared to equity in net losses of \$1.7 million in fiscal 2002. The increase in net earnings is primarily attributable to improved earnings of the LLC, partially as a result of strong volumes and governmental rebate programs, and U.N.F.. UNIFI-SANS' net loss remained substantially unchanged in 2003.

In June 2000 the Company and Dupont formed an Alliance to integrate each company's polyester partially oriented yarn (POY) manufacturing facilities into a single production unit to enable each company to match production with the best assets available, significantly improving product quality and yields. On April 4, 2001, DuPont shut its Cape Fear POY facility allowing for the acceleration of the benefits of the Alliance by shutting down older filament manufacturing operations and transferring production to lower cost, more modern and flexible assets. As a result of DuPont shutting down the Cape Fear facility the Company recognized, in the fourth quarter of 2001, a \$15.0 million charge for its 50% share of the severance and costs to dismantle the facility. Now that the project is substantially complete the Company's actual share of the severance and dismantlement costs is currently estimated to be \$11.5 million. Accordingly, the Company has reflected a reduction of the previously accrued liability of \$3.5 million in the Consolidated Statements of Operations. Subsequent to the shut down, the Company and DuPont continue to share the cash fixed costs eliminated as a result of the Cape Fear shut down and also share the other expected costs savings and synergies from the Alliance.

In accordance with the terms of the Alliance Agreements between the Company and DuPont, a provision of the Agreements provides for disputed matters to be arbitrated if they cannot otherwise be resolved. DuPont filed a Demand for and Notice of Arbitration and Unifi has responded with an Answer and Counterclaim. DuPont's claims approximated \$85.0 million, injunctive relief and, absent a satisfactory cure by Unifi, a declaratory judgment that the Company was in "substantial breach" of the Alliance Agreements, which if allowed would permit DuPont to terminate the Alliance and exercise its right to sell ("Put") its U.S. polyester filament business to the Company for a purchase price within a range of \$300.0 million to \$600.0 million, as set forth in the Alliance Agreements.

Scheduled arbitration hearings concluded on January 23, 2003 and the Company received, in the March and June quarters of the 2003 fiscal year, orders from the Arbitration Panel stating that Unifi had not committed a "substantial breach" of the Alliance agreements, and consequently DuPont cannot terminate the Alliance or exercise its right to sell ("Put") its U.S. polyester filament business to the Company at this time. Additionally, the Arbitration Panel determined that DuPont did not breach its "obligations and undertakings" thereby resulting in no "material adverse effect", each as defined in the Alliance agreements, on the POY

business. Accordingly, the terms of the Put exercisable by DuPont in June 2005 remain in effect, as described in the Alliance agreements.

Additionally, with respect to DuPont's previously disclosed claims for approximately \$85.0 million and Unifi's counterclaims, the Arbitration Panel ruled that the Company had violated certain provisions of the Alliance agreements and that DuPont had misinterpreted certain provisions of the Alliance agreements.

The Arbitration process concluded in June 2003 and, as a result, upon reviewing submissions from both companies, the Arbitration Panel awarded damages to Dupont, inclusive of interest, in the amount of approximately \$16.0 million. Such damages were paid by the Company to Dupont in June 2003. The Company has also included arbitration expenses, previously included in selling, general and administrative expenses, as part of its arbitration costs and expenses in its Consolidated Statements of Operations. Such expenses amounted to \$3.2 million and \$1.1 million for the fiscal years ended June 29, 2003 and June 30, 2002, respectively.

The Arbitration Panel also reaffirmed its decision to dismiss \$17.6 million of the aforementioned DuPont claim, as this claim was not properly brought before the Arbitration Panel. However, DuPont continues to pursue collection of this claim. The Company continues to deny these assertions.

The Company recorded minority interest expense of \$4.8 million for fiscal 2003 compared to \$0.0 million in the prior year. The minority interest charge recorded in the consolidated financial statements primarily relates to the minority owner's share of the earnings and cash flows of Unifi Textured Polyester, LLC ("UTP"). UTP realized no earnings, but generated net positive cash flows of \$4.8 million in fiscal 2003, whereas, there was no cash generated in 2002. UTP was formed with Burlington Industries ("Burlington") on May 29, 1998, whereby Unifi has an 85.42% ownership interest and Burlington has a 14.58% interest. For the first five years, Burlington was entitled to the first \$9.4 million of annual net earnings and the first \$12.0 million of UTP's cash flows on an annual basis, less the amount of UTP net earnings. Subsequent to June 2, 2003, earnings and cash flows of UTP are allocated based on the initial ownership percentages.

The Company recognized a tax benefit in the current year, at a 8.5% effective tax rate compared to a tax benefit, before the cumulative effect of accounting change, at a 25.6% effective tax rate in fiscal 2002. A primary reason for the difference between the statutory and effective tax rate in both fiscal years 2003 and 2002 is that substantially no tax benefit was recognized on losses sustained by certain foreign subsidiaries, as the recoverability of such tax benefits through loss carryforwards was not assured. The current year effective tax rate was also negatively impacted due to an increase in the valuation allowance associated with certain deferred tax assets. Additionally, due to a change in the legal entity structure, a deferred tax asset associated with a state net operating loss carryforward was written off in the current year. For fiscal 2002, the Company's effective rate was negatively impacted by non-deductible compensation and other expenses. The combined effect of the above items in 2003 and 2002 was partially offset by earnings of certain foreign operations, which were taxed at lower effective tax rates than the U.S. statutory rate.

In June 2001, the Financial Accounting Standards Board issued Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), which prohibits companies from amortizing goodwill and other indefinite-lived intangible assets and, alternatively, requires them to review the assets for impairment annually or more frequently under certain conditions. The Company adopted SFAS 142 on June 25, 2001. In accordance with the transition provisions of this standard, the Company concluded step one of the transitional goodwill impairment test for all of the reporting units of the Company in the second quarter of fiscal year 2002. The results of this phase of the transition testing indicated that the goodwill associated with the nylon business segment might have been impaired. As required by the transitional impairment test provisions, the Company determined whether an impairment loss existed and how much, if any, of the loss was to be recognized. Based upon the results of concluding this step of the transition testing in the fourth quarter of fiscal 2002, all of the goodwill associated with the nylon segment was deemed to be impaired and was subsequently written off. In accordance with the provisions of SFAS 142, any impairment losses recognized upon initial adoption of this standard were required to be written-off as a cumulative effect of a change in accounting principle effective as of the beginning of the fiscal year in which the standard was adopted. Consequently, the Company wrote off the unamortized balance of the goodwill associated with the nylon

business segment as of June 25, 2001, of \$46.3 million (\$37.9 million or \$(.71) per diluted share net of taxes) as a cumulative effect of an accounting change. See "Goodwill and Other Intangibles" under Footnote 1 "Accounting Policies and Financial Statement Information" and Footnote 3 "Cumulative Effect of Accounting Change" for further discussion regarding this adjustment.

As a result of the above, the Company realized during the current year a net loss of \$27.2 million or \$(.51) per diluted share compared to a net loss before cumulative effect in accounting change in fiscal year 2002 of \$6.1 million, or \$(.11) per diluted share. The net loss for 2002 after the cumulative effect of accounting change was \$43.9 million or \$(.82) per diluted share.

Review of Fiscal Year 2002 Results of Operations (53 Weeks) Compared to Fiscal Year 2001 (52 Weeks)

Following is a summary of operating income by segment for fiscal years 2002 and 2001, as reported regularly to the Company's management:

	Polyester	Nylon	All Other	Total
(Amounts in thousands)				
Fiscal 2002				
Net sales	\$662,770	\$ 251,986	\$ —	\$ 914,756
Cost of sales	605,898	236,986	—	842,884
Selling, general and administrative	37,115	10,243	—	47,358
Segment operating income	<u>\$ 19,757</u>	<u>\$ 4,757</u>	<u>\$ —</u>	<u>\$ 24,514</u>
Fiscal 2001				
Net sales	\$791,232	\$ 315,114	\$33,270	\$1,139,616
Cost of sales	725,351	293,090	21,767	1,040,208
Selling, general and administrative	37,451	14,632	13,362	65,445
Segment operating income (loss)	<u>\$ 28,430</u>	<u>\$ 7,392</u>	<u>\$ (1,859)</u>	<u>\$ 33,963</u>

As described in Consolidated Financial Statements Footnote 9 "Business Segments, Foreign Operations and Concentrations of Credit Risk", the adjustments to revenues and expenses required to reconcile the operating segments to consolidated results are comprised primarily of intersegment sales and cost of sales eliminations, fiber costing, the provision for bad debts and certain unallocated manufacturing and selling, general and administrative expenses.

Polyester Operations

Fiscal 2002 polyester net sales decreased \$128.5 million, or 16.2% compared to fiscal 2001. The decrease from fiscal year 2001 is primarily attributable to reduced volumes and average unit prices as the effects of the uncertain economy and reduced consumer spending impacted textile and apparel manufacturers. Additionally, importation of fabric and apparel into the domestic market continues to erode the business of our U.S. based customers. Polyester sales volumes declined approximately 12% globally for the Company in fiscal year 2002. Domestically, polyester sales volumes declined 15.3% while average unit prices declined approximately 2.1%. Sales from our Ireland operation, on a local currency basis, declined approximately 9.3%, which is a result of reduced volumes. The impact on sales translated to U.S. dollars resulting from changes in the currency exchange rate for this operation was not significant for the current fiscal year. Sales from our dyeing operation in England declined over the prior year due to decreased unit volume. Sales from our Brazilian texturing operation, on a local currency basis, increased 1.4% over the prior year due to higher volumes. The impact on net sales from this operation on a U.S. dollar basis as a result of the change in currency exchange rate was an decrease of \$17.0 million.

Gross profit on sales for our polyester operations declined \$9.0 million, or 13.7%, over fiscal year 2001, while gross margin (gross profit as a percentage of net sales) improved from 8.3% in fiscal year 2001 to 8.6% in fiscal year 2002. The gross margin in 2002 includes cost savings from the DuPont Alliance of \$33.8 million, which represents an additional \$22.6 million in cost savings over fiscal year 2001. In addition, the absence of goodwill amortization, which ceased at the beginning of fiscal year 2002 upon adoption of SFAS 142, helped improve gross margins. Amortization expense approximated \$0.6 million for fiscal year 2001 for the polyester segment. These improvements were offset, in part, by higher per unit manufacturing costs relative to a lower sales base reflecting the fixed nature of many of our manufacturing costs. The prior year cost reduction initiative helped to mitigate this effect.

Selling, general and administrative expenses for this segment declined \$0.3 million from 2001 to 2002. This decrease was accomplished mainly due to the Company-wide cost cutting initiatives implemented at the end of the prior year third quarter. The impact of the cost savings realized by the Company's domestic operations benefited each segment in proportion to their share of the allocated costs. While the methodology

to allocate domestic selling, general and administrative costs remained consistent between fiscal year 2001 and fiscal year 2002, the percentage of such costs allocated to each segment are determined at the beginning of every year based on specific cost drivers. The polyester segment's share of such costs increased in fiscal year 2002, substantially offsetting the cost savings realized by the Company. In addition, this segment was charged additional selling, general and administrative costs for direct expenses associated with the Glen Raven air jet texturing operating agreement entered into at the end of fiscal year 2001. See Footnote 2 "Acquisitions and Divestitures" of this Annual Report on Form 10-K for further information.

Our international polyester pre-tax results of operations improved significantly over the prior year. Pre-tax losses of the polyester segment's European operations for fiscal year 2002 improved by \$18.9 million over fiscal 2001. This is attributable, in large part, to the cost reduction initiative that the Company implemented in fiscal 2001 and the resulting \$10.7 million of charges recorded for employee severance and the write down of certain assets at that time. Pre-tax results of operations for the polyester segment's Brazilian location improved \$6.2 million in fiscal year 2002 over fiscal 2001. This improvement in Brazil reflects improved product quality and manufacturing efficiencies, an expanded customer base and the introduction of value-added products.

Nylon Operations

Nylon net sales decreased \$63.1 million, or 20.0% in fiscal 2002 compared to fiscal 2001. Unit volumes for fiscal 2002 decreased by 9.3%, while average sales prices, based on product mix, declined 11.9%. The reductions in sales volume and price are primarily attributable to slower sales at retail resulting from the uncertain economy and consumer spending. Additionally, importation of fabric and apparel into the domestic market continues to erode the business of our U.S. based customers.

Nylon gross profit decreased \$7.0 million, or 31.9% in 2002 and gross margin decreased from 7.0% in 2001 to 6.0% in 2002. This was primarily attributable to reductions in per unit sales prices in excess of reduced per unit raw materials. In addition, gross margins were negatively impacted by higher per unit fixed manufacturing costs relative to a lower sales base. Offsetting the reduced gross margins was the absence of goodwill amortization in the current year as a result of adopting SFAS 142 at the beginning of the year. Such amortization totaled \$3.1 million in fiscal year 2001 for the nylon segment.

Selling, general and administrative expense for the nylon segment decreased \$4.4 million in fiscal 2002. This reduction is due mainly to the cost cutting initiatives implemented at the end of the fiscal year 2001 third quarter in addition to the nylon segment receiving a reduced share of such charges in the current fiscal year compared to fiscal year 2001. See further discussion on selling, general and administrative expenses under the polyester segment above for further explanation of these allocated costs.

All Other

The "All Other" segment for fiscal year 2001 was primarily, at that time, comprised of a majority owned subsidiary, Unifi Technology Group, LLC ("UTG") established in May 1999, that the Company previously owned. UTG was an automation solutions provider that provided information technology consulting services and also sold and serviced certain computer hardware. Effective March 2001, UTG was accounted for as an asset held for sale and did not have any sales or operating income for the 2002 fiscal year. The higher selling, general and administrative expenses in the prior year for this category reflect additional costs incurred in early termination of certain UTG office leases in the second fiscal quarter. The consulting portion of this business was sold at the end of fiscal year 2001. The operation that remained at the end of fiscal year 2001, which consisted of computer hardware sales and servicing, conducted business under the name Cimtec Automation, Inc. and was sold by the Company in January 2002.

Consolidated Operations

Selling, general and administrative expenses for fiscal year 2002 that were not allocated to the segments totaled approximately \$3.7 million. This total includes a charge related to the forgiveness of a \$1.2 million loan to the CEO, which was due and payable on May 1, 2002, plus an adjustment to cover the personal tax consequences of this debt forgiveness. The loan was originally made in 1999 to assist the CEO and his family

in relocating to the United States from Ireland and in purchasing a home. The loan forgiveness was made by the unanimous decision of the Company's Board of Directors. Additionally, unallocated selling, general and administrative expenses include costs to start up a sales office in Hong Kong and certain legal fees.

For the year ended June 30, 2002, the Company recorded a \$6.3 million provision for bad debts. This compares to \$8.2 million recorded in the prior year. Fiscal year 2002 continued to be a challenging year for the U.S. textile industry, particularly in the apparel sector, and culminated in the voluntary bankruptcy filing of certain of the Company's largest domestic customers. While the Company's bad debt loss experience was not significant relative to these specific customers, the financial viability of certain customers continues to require close management scrutiny in these difficult economic and industry conditions.

Interest expense decreased from \$30.1 million in fiscal 2001 to \$23.0 million in fiscal 2002. The decrease in interest expense is a function of both lower levels of debt and lower weighted average interest rates throughout fiscal year 2002 compared to the preceding year. As discussed further below, the Company refinanced the debt agreements outstanding at the end of the prior fiscal year on December 7, 2001 of the current fiscal year. While the new debt agreement provides for higher add-on interest rates than the previous agreements, the reduction in prevailing market interest rates during the year offset this higher cost. At the end of the current year, the Company had \$23.0 million outstanding in funded bank debt. This compares to \$76.6 million at the end of the prior year. The weighted average interest rate of Company debt outstanding at June 30, 2002 was 6.3% compared to 6.1% at June 24, 2001. Interest income remained consistent between 2002 and 2001.

Other expense decreased from \$8.1 million in 2001 to \$3.2 million in 2002. The fiscal 2002 year includes net losses from the sale and write-down to net realizable value of property and equipment and other investments of \$3.0 million. In addition, currency loss aggregated approximately \$0.3 million for the year. The fiscal 2001 loss includes \$9.5 million in losses for foreign currency related transactions including a loss of \$4.7 million on foreign currency derivative contracts denominated in Euros for which hedge accounting was terminated upon the cancellation of the proposed project. Losses in 2001 were offset, in part, by amounts recovered for an insurance claim, a government grant program associated with a start-up operation and a duty-drawback claim associated with prior periods.

Equity in the net losses, to the extent recognized, of our equity affiliates, Parkdale America, LLC., UNIFI-SANS Technical Fibers, LLC ("UNIFI-SANS") and U.N.F. totaled \$1.7 million in fiscal 2002 compared to equity in net earnings of \$2.9 million in fiscal 2001. The decrease in net earnings is primarily attributable to reduced earnings of the LLC and the recognition of losses associated with the start-up of UNIFI-SANS. These changes were partially mitigated by the cessation of losses associated with the Company's ongoing ownership interest in Micell Technologies, Inc. ("Micell") in fiscal 2002, while the Company's share of such losses totaled \$4.3 million in 2001. The Company recognized no losses for this equity affiliate in the 2002 fiscal year as the investment in Micell was written off in fiscal year 2001.

The Company recorded no minority interest expense for fiscal 2002 compared to \$2.6 million in the prior year. The minority interest charge recorded in the consolidated financial statements primarily relates to the minority owner's share of the earnings and cash flows of Unifi Textured Polyester, LLC ("UTP"). UTP realized no earnings and no net positive cash flows in fiscal 2002.

The Company recognized a tax benefit in fiscal 2002, before the cumulative effect of accounting change, at a 25.6% effective tax rate compared to a tax benefit at a 20.6% effective tax rate in fiscal 2001. A primary reason for the difference between the statutory and effective tax rate in both fiscal years 2002 and 2001 is that substantially no tax benefit was recognized on losses sustained by certain foreign subsidiaries, as the recoverability of such tax benefits through loss carryforward or carryback was not assured. In addition, for fiscal 2002, the Company's effective rate was negatively impacted by non-deductible compensation and other expenses. The combined effect of the above items in 2002 was partially offset by earnings of certain foreign operations, which were taxed at lower effective tax rates than the U.S. statutory rate.

In June 2001, the Financial Accounting Standards Board issued Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), which prohibits companies from amortizing goodwill

and other indefinite-lived intangible assets and, alternatively, requires them to review the assets for impairment annually or more frequently under certain conditions. The Company adopted SFAS 142 on June 25, 2001. In accordance with the transition provisions of this standard, the Company concluded step one of the transitional goodwill impairment test for all of the reporting units of the Company in the second quarter of fiscal year 2002. The results of this phase of the transition testing indicated that the goodwill associated with the nylon business segment might have been impaired. As required by the transitional impairment test provisions, the Company determined whether an impairment loss existed and how much, if any, of the loss was to be recognized. Based upon the results of concluding this step of the transition testing in the fourth quarter of fiscal 2002, all of the goodwill associated with the nylon segment was deemed to be impaired and was subsequently written off. In accordance with the provisions of SFAS 142, any impairment losses recognized upon initial adoption of this standard were required to be written-off as a cumulative effect of a change in accounting principle effective as of the beginning of the fiscal year in which the standard was adopted. Consequently, the Company wrote off the unamortized balance of the goodwill associated with the nylon business segment as of June 25, 2001, of \$46.3 million (\$37.9 million or \$(.71) per diluted share net of taxes) as a cumulative effect of an accounting change. See "Goodwill and Other Intangibles" under Footnote 1 "Accounting Policies and Financial Statement Information" and Footnote 3 "Cumulative Effect of Accounting Change" for further discussion regarding this adjustment.

As a result of the above, the Company realized during the 2002 fiscal year a net loss before cumulative effect of accounting change of \$6.1 million or \$(.11) per diluted share compared to a net loss in fiscal year 2001 of \$44.7 million, or \$(.83) per diluted share. The net loss for fiscal year 2002 after the cumulative effect of accounting change was \$43.9 million or \$(.82) per diluted share.

Liquidity and Capital Resources

Cash generated from operations was \$95.7 million for fiscal 2003, compared to \$89.7 million for fiscal 2002. The primary sources of cash from operations in 2003 were the net loss of \$27.2 million adjusted for non-cash adjustments of \$85.5 million. Depreciation and amortization of \$73.0 million, a reduction in deferred income taxes of \$4.7 million, the provision for bad debt and quality claims of \$4.0 million, and non-cash portion of restructuring charges of \$13.2 million were all the components of the non-cash adjustments. Other significant sources of cash from operations were reduced receivables of \$13.7 million, increased income taxes payable of \$13.7 million and an increase in accounts payable and accrued expenses of \$7.7 million, offset by an increase in inventories of \$4.0 million and a reduction in deferred taxes of \$4.7 million. Working capital changes have been adjusted to exclude the effects of acquisitions and currency translation for all years presented, where applicable. Working capital at June 29, 2003 was \$184.0 million.

The Company utilized \$11.6 million for net investing activities and \$29.1 million for net financing activities during fiscal 2003. Significant expenditures during this period included \$23.5 million for capital expenditures which included the purchase of the corporate office building and land in Greensboro, North Carolina from the Company's Retirement Savings Plan, upgrading the primary software system used to operate the business, and upgrading plant equipment. During 2003, the Company collected, in full, its note receivable from U.N.F. Industries, a 50% owned joint venture. Additionally, \$23.0 million was expended for net retirements of long-term debt. Since October 3, 2002, the Company has had no amounts outstanding under its bank credit facility. Management does not expect to utilize its available line of credit during fiscal year 2004 to fund its normal business operations. During the fourth quarter of fiscal 2003, the Company began repurchasing its common stock and expended \$2.9 million as of June 29, 2003.

The Company is not committed for any significant capital expenditures but expects to spend approximately \$12.5 million for capital expenditures during fiscal year 2004. Management expects to use cash generated from operations to fund the capital spending.

The Company periodically evaluates the carrying value of its polyester and nylon segments long-lived assets, including property, plant and equipment and intangibles, to determine if such assets are impaired whenever events or changes in circumstances indicate that a potential impairment has occurred. The importation of fiber, fabric and apparel has continued to adversely impact sales volumes and margins for these

operations and has negatively impacted the U.S. textile and apparel industry in general. See "Goodwill and Other Intangibles" and "Long-Lived Assets" under Footnote 1 "Accounting Policies and Financial Statement Information" for further information regarding the accounting guidance applicable to these assets.

Effective July 26, 2000, the Board of Directors increased the Company's remaining authorization to repurchase up to 10.0 million shares of the Company's common stock. The Company purchased 1.4 million shares in fiscal year 2001 for a total of \$16.6 million. There were no significant stock repurchases in fiscal year 2002. Effective April 24, 2003, the Board of Directors re-instituted the stock repurchase program. Accordingly, the Company purchased 0.5 million shares in fiscal year 2003. The Company has continued to repurchase shares during the first quarter of fiscal 2004.

On December 7, 2001, the Company refinanced its \$150 million revolving bank credit facility, as amended, and its \$100 million accounts receivable securitization, which were entered into on December 20, 2000, with a new five-year \$150 million asset based revolving credit agreement (the "Credit Agreement"). On October 29, 2002 the Company notified its lenders of a \$50.0 million permanent reduction of the total facility amount, resulting in a total facility amount of \$100.0 million effective January 1, 2003.

The Credit Agreement is secured by substantially all U.S. assets excluding manufacturing facilities and manufacturing equipment. Borrowing availability is based on eligible domestic accounts receivable and inventory. As of June 29, 2003 the Company had no outstanding borrowings, and had availability of \$98.0 million, under the terms of the Credit Agreement.

Borrowings under the Credit Agreement bear interest at LIBOR plus 2.50% and/or prime plus 1.00%, at the Company's option, through February 28, 2003. Effective March 1, 2003, borrowings under the Credit Agreement bear interest at rates selected periodically by the Company of LIBOR plus 1.75% to 3.00% and/or prime plus 0.25% to 1.50%. The interest rate matrix is based on the Company's leverage ratio of funded debt to EBITDA, as defined by the Credit Agreement. The interest rate in effect at June 29, 2003, was 3.6%. Under the Credit Agreement, the Company pays an unused line fee ranging from 0.25% to 0.50% per annum on the unused portion of the commitment.

The Credit Agreement contains customary covenants for asset based loans which restrict future borrowings and capital spending and, if available borrowings are less than \$25.0 million at any time during the year, include a required minimum fixed charge coverage ratio of 1.1 to 1.0 and a required maximum leverage ratio of 5.0 to 1.0. At June 29, 2003, the Company was in compliance with all covenants under the Credit Agreement.

Effective June 1, 2000, the Company and E.I. DuPont De Nemours and Company (DuPont) initiated a manufacturing alliance. The Alliance is intended to optimize Unifi's and DuPont's partially oriented yarn (POY) manufacturing facilities, increase manufacturing efficiency and improve product quality. Under the terms of the Alliance Agreements, DuPont and Unifi will cooperatively run their polyester filament manufacturing facilities as a single operating unit. This consolidation involved the closing of the DuPont Cape Fear, North Carolina plant and optimizing production efficiencies by manufacturing commodity yarns for the Alliance in DuPont's Kinston, North Carolina plant and high-end specialty yarns in Yadkinville. The companies will split equally the costs to complete the necessary plant consolidation and the benefits gained through asset optimization. Additionally, the companies will collectively attempt to increase profitability through the development of new products and related technologies. Likewise, the costs incurred and benefits derived from the product innovations will be split equally. DuPont and Unifi will continue to own and operate their respective sites and employees will remain with their respective employers. DuPont will continue to provide POY to the marketplace and will use DuPont technology to expand the specialty product range at each company's sites. Unifi will continue to provide textured yarn to the marketplace.

At termination of the Alliance or at any time after June 1, 2005, DuPont has the right but not the obligation to sell to Unifi (a "Put") and Unifi has the right but not the obligation to purchase from DuPont (a "Call"), DuPont's U.S. polyester filament business for a price based on a mutually agreed fair market value within a range of \$300.0 million to \$600.0 million. Dupont's right to put its U.S. polyester filament business to Unifi and Unifi's obligation to purchase such business are subject to certain conditions, including the ability of

the Company to obtain a reasonable amount of financing on commercially reasonable terms. The Company believes that its ability to finance the purchase of Dupont's U.S. polyester filament business will be partially dependant upon the level of underlying cash flows generated by such business; such cash flow levels are not known by the Company at this time. In the event that the Company does not purchase the DuPont U.S. polyester filament business, DuPont would have the right but not the obligation to purchase the Company's domestic POY facility for a price based on a mutually agreed fair market value within a range of \$125.0 million to \$175.0 million.

On July 17, 2003 the Company announced that it has signed a non-binding letter of intent to form a joint venture type company with Kaiping Polyester Enterprises Group Co. ("Kaiping") in Kaiping, Guangdong, P.R. China to manufacture and sell certain polyester and nylon products. Closing the proposed transaction is contingent upon satisfactory completion of the parties' due diligence procedures, negotiation and agreement on definitive agreements (including certain key financial terms), and receipt of certain governmental, third party and corporate approvals. Accordingly, the likelihood that this transaction will be consummated and related liquidity requirements, if any, is not determinable at this time.

The current business climate for U.S. based textile manufacturers remains challenging due to disparate worldwide production capacity and demand, weakness at retail and the direct sourcing of garments and fabrics from lower wage-based countries. This highly competitive environment has resulted in a declining market for the Company, domestically and abroad. Consequently, Management took certain cost reduction actions in fiscal year 2003 to align our cost structure with current market demands. Should business conditions worsen, management is prepared to take such further actions as deemed necessary to align our capacity and cost structure with market demands. Management believes the current financial position of the Company in connection with its operations and its access to debt and equity markets are sufficient to meet working capital needs and pursue strategic business opportunities.

Recent Accounting Pronouncements

In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140). SFAS 140 replaces Statement of Financial Accounting Standard No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 125). SFAS 140 revises the standards for accounting and for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but carries over most of SFAS 125's provisions. SFAS 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on a financial-components approach that focuses on control. This standard is applied prospectively and was effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Adopting this standard had no material impact on consolidated financial position or results of operations of the Company.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," (SFAS 141) and No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). See "Goodwill and Other Intangible Assets" above for further discussion of SFAS 141 and 142 and the impact on the Consolidated Financial Statements of adopting these standards in the Company's fiscal year 2002.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 143 "Accounting for Asset Retirement Obligations" (SFAS 143). This standard applies to all entities and addresses legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Additionally, any associated asset retirement costs are to be capitalized as part of the carrying amount of the long-lived asset and expensed over the life of the asset. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002.

Adopting this standard had no material impact on consolidated financial position or results of operations of the Company.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 supersedes Statement of Financial Accounting Standard No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS 121), and the accounting and reporting provisions of APB Opinion No. 30 "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30), for the disposal of a segment of a business (as previously defined). SFAS 144 also amends ARB No. 51 "Consolidated Financial Statements" to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS 144 establishes a single accounting model for long-lived assets to be disposed of, which previously had been accounted for either under APB 30 or under SFAS 121. Specifically, SFAS 121 did not address the accounting for a segment of a business accounted for as a discontinued operation, which was provided for under APB 30. The new accounting framework under SFAS 144 is based on the guidance provided under SFAS 121 for assets to be disposed of by sale.

In addition to establishing a single framework for long-lived assets to be disposed of, SFAS 144 resolves implementation issues related to SFAS 121. With respect to long-lived assets to be held and used, SFAS 144 retains the requirements of SFAS 121 to recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and to measure the impairment loss as the difference between the carrying amount and fair value of the asset. SFAS 144, however, excludes goodwill from its scope and therefore eliminates the requirements of SFAS 121 to allocate goodwill to long-lived assets for impairment testing. In addition, SFAS 144 addresses situations in which alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or where a range is estimated for the amount of potential future cash flows. In such situations, SFAS 144 provides for a probability-weighted cash flow estimation approach. SFAS 144 also establishes a primary-asset approach to determine the cash flow estimation period for a group of assets and liabilities representing the unit of accounting for a long-lived asset to be held and used. For long-lived assets to be disposed of other than by sale (such as abandonment, exchange for a similar productive asset or distribution to owners in a spin-off), SFAS 144 requires that the assets be considered held and used until disposed of. In such cases, the depreciable life of the assets should be revised in accordance with APB Opinion No. 20 "Accounting Changes," and, as an amendment to APB Opinion No. 29 "Accounting for Nonmonetary Transactions," also requires that an impairment loss be recognized at the time a long-lived asset is exchanged for a similar productive asset or distributed to owners in a spin-off if the carrying value of the assets exceeds its fair value. Finally, for long-lived assets to be disposed of by sale, SFAS 144 is to be used for all such long-lived assets whether previously held and used or recently acquired. SFAS 144 retains the requirement of SFAS 121 to measure a long-lived asset classified as held for sale at the lower of its carrying amount or fair value less cost to sell and to stop depreciation or amortization of the asset. Consequently, discontinued operations are no longer to be measured on a net realizable basis and future operating losses are no longer to be recognized before they occur. The presentation of discontinued operations in the income statement still follows the basic provisions of APB 30 but is now broadened to include a component of an entity rather than a segment of a business. SFAS 144 provides implementation guidance to determine when a long-lived asset is held for sale and also provides guidance for situations in which the criteria for an asset to be considered held for sale are met after the balance sheet date but before issuance of the financial statements. In addition, SFAS 144 provides guidance for assets previously considered held for sale and subsequently reclassified as held and used.

SFAS 144 is effective for fiscal years beginning after December 15, 2001 and for interim periods within those fiscal years. Adopting this standard had no material impact on consolidated financial position or results of operations of the Company.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS 145). SFAS 145, among other changes, now requires that gains and losses from extinguishments of debt be classified as extraordinary items only if they meet the criteria in

APB Opinion No. 30 "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." In order to correct previously existing inconsistencies in accounting treatment for transactions with similar economic characteristics, SFAS 145 also requires that certain lease modifications that have economic characteristics similar to sales-leaseback transactions be accounted for as sales-leaseback transactions. SFAS 145 also addresses other various technical corrections that are not substantive in nature or have no effect on the Company. SFAS 145 was effective for financial statements issued on or after May 15, 2002. Adopting this standard had no impact on consolidated financial position or results of operations of the Company.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF 94-3). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and established that fair value should be used for initial measurement of the liability. Under EITF 94-3, a liability for an exit cost was recognized at the date an entity committed to an exit plan. Under conclusions reached in SFAS 146, committing to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. Consequently, the definition and requirements for recognition of exit costs in EITF 943 have been eliminated. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Adopting this standard had no impact on consolidated financial position or results of operations of the Company.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 were effective beginning with the third quarter of fiscal 2003.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure," (SFAS 148). SFAS 148 amends SFAS 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The alternative methods of transition of SFAS 148 are effective for fiscal years ending after December 15, 2002. The disclosure provision of SFAS 148 is effective for interim periods beginning after December 15, 2002. The Company currently uses the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 for its employee stock options. The Company adopted the disclosure provisions of the statement as of the beginning of the March 2003 quarter. See Footnotes 1 and 6 for additional information regarding stock-based compensation.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidated of Variable Interest Entities" (FIN 46). This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," addresses consolidation of variable interest entities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary if the entity does not effectively disperse risks among the parties involved. The provisions of FIN 46 are effective immediately for those variable interest entities created after January 31, 2003. The provisions are effective for the first interim period beginning after June 15, 2003 for those variable interests held prior to February 1, 2003. The Company does not expect the provisions of FIN 46 to materially affect the Company's consolidated financial position or results of operations.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The following discussion provides further information about accounting policies critical to the Company and should be read in conjunction with Footnote 1, "Accounting Policies and Financial Statement Information" of this Report.

Alliance Cost Savings: Effective June 1, 2000, Unifi and DuPont began operating their manufacturing alliance to produce polyester filament yarn. One of the objectives of the Alliance is to reduce operating costs through collectively planning and operating both companies' POY facilities as a single production unit. In accordance with the Alliance Agreements, cost savings realized from operating as a single production unit are to be shared equally between the Company and DuPont. Determining the actual cost savings realized requires comprehensive analysis that may take several accounting periods to finalize. As such, accounting estimates are made to record the expected cost savings in the appropriate accounting period and are adjusted when the analysis is subsequently finalized.

Allowance for Doubtful Accounts: An allowance for losses is provided for known and potential losses arising from yarn quality claims and for amounts owed by customers that are not factored. Reserves for yarn quality claims are based on historical experience and known pending claims. The collectibility of non-factored accounts receivable is based on a combination of factors including the aging of accounts receivable, write-off experience and the financial condition of specific customers. Accounts are written off when they are no longer deemed to be collectible. General reserves are established based on the percentages applied to accounts receivables aged for certain periods of time and are supplemented by specific reserves for certain customer accounts where collection is no longer certain. Establishing reserves for yarn claims and bad debts requires management judgment and estimates, which may impact the ending accounts receivable valuation, gross margins (for yarn claims) and the provision for bad debts.

Inventory Reserves: The Company maintains reserves for inventories valued utilizing the FIFO method and may provide for additional reserves over and above the LIFO reserve for inventories valued at LIFO. Such reserves for both FIFO and LIFO valued inventories can be specific to certain inventory or general based on judgments about the overall condition of the inventory. General reserves are established based on percentage markdowns applied to inventories aged for certain time periods. Specific reserves are established based on a determination of the obsolescence of the inventory and whether the inventory value exceeds amounts to be recovered through expected sales prices, less selling costs; and, for inventory subject to LIFO, the amount of existing LIFO reserves. Due to declining prices of raw materials over the past several years and lower inventory levels, the available LIFO reserve has been depleted significantly requiring that supplemental reserves be established. Estimating sales prices, establishing markdown percentages and evaluating the condition of the inventories require judgments and estimates, which may impact the ending inventory valuation and gross margins.

Impairment of Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets held and used, an impairment may occur if projected undiscounted cash flows are not adequate to cover the carrying value of the assets. In such cases, additional analysis is conducted to determine the amount of loss to be recognized. The impairment loss is determined by the difference between the carrying amount of the asset and the fair value measured by future discounted cash flows. The analysis conducted requires estimates of the amount and timing of projected cash flows and, where applicable, judgments associated with, among other factors, the appropriate discount rate. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. In addition, future events impacting cash flows for existing assets could render a writedown necessary that previously required no such writedown.

For assets held for disposal, an impairment charge is recognized if the carrying value of the assets exceeds the fair value less costs to sell. Estimates are required of fair value, disposal costs and the time period to dispose of the assets. Such estimates are critical in determining whether any impairment charge should be

recorded and the amount of such charge if an impairment loss is deemed to be necessary. Actual cash flows received or paid could differ from those used in estimating the impairment loss, which would impact the impairment charge ultimately recognized and the Company's cash flows.

Impairment of Goodwill and Other Intangible Assets: Goodwill and other indefinite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The impairment loss is determined by the difference between the carrying amount of the asset and its fair value. Determining fair value involves estimates and judgments that are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. In addition, future events impacting cash flows for existing assets could render a writedown necessary that previously required no such writedown.

Accruals for Costs Related to Severance of Employees: From time to time, the Company establishes accruals associated with employee severance or other cost reduction initiatives. Such accruals require that estimates be made about the future payout of various costs, including, for example, health care claims. The Company uses historical claims data and other available information about expected future health care costs to estimate its projected liability. Such costs are subject to change due to a number of factors including the incidence rate for health care claims, prevailing health care costs, and the nature of the claims submitted, among others. Consequently, actual expenses could differ from those expected at the time the provision was estimated, which may impact the valuation of accrued liabilities and results of operations.

Accrual for Alliance Plant Closure Costs: In the fourth quarter of fiscal year 2001, the Company recorded its share of the anticipated costs of closing DuPont's Cape Fear, North Carolina facility. The charge totaled \$15.0 million and represents 50% of the severance and dismantlement cost of closing this plant. The Cape Fear plant produced polyester POY and was one of two DuPont facilities involved in the Alliance further discussed in Footnote 16 "Alliance." Now that the project is substantially complete the Company's actual share of the severance and dismantlement costs is currently estimated to be \$11.5 million. Accordingly, the Company has reflected a reduction of previously recorded amounts of \$3.5 million in the accompanying Consolidated Statements of Operations. The remaining obligation is included in accrued liabilities on the Consolidated Balance Sheets.

Forward-Looking Statements

Certain statements included herein contain forward-looking statements within the meaning of federal security laws about Unifi, Inc.'s (the "Company") financial condition and results of operations that are based on management's current expectations, estimates and projections about the markets in which the Company operates, management's beliefs and assumptions made by management. Words such as "expects," "anticipates," "believes," "estimates," variations of such words and other similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in, or implied by, such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's judgment only as of the date hereof. The Company undertakes no obligation to update publicly any of these forward-looking statements to reflect new information, future events or otherwise.

Factors that may cause actual outcome and results to differ materially from those expressed in, or implied by, these forward-looking statements include, but are not necessarily limited to, availability, sourcing and pricing of raw materials, pressures on sales prices and volumes due to competition and economic conditions, reliance on and financial viability of significant customers, operating performance of joint ventures, alliances and other equity investments, technological advancements, employee relations, changes in construction spending, capital expenditures and long-term investments (including those related to unforeseen acquisition opportunities), continued availability of financial resources through financing arrangements and operations, outcomes of pending or threatened legal proceedings, negotiation of new or modifications of existing contracts for asset management and for property and equipment construction and acquisition, regulations governing tax laws, other governmental and authoritative bodies' policies and legislation, the continuation and magnitude of

the Company's common stock repurchase program and proceeds received from the sale of assets held for disposal. In addition to these representative factors, forward-looking statements could be impacted by general domestic and international economic and industry conditions in the markets where the Company competes, such as changes in currency exchange rates, interest and inflation rates, recession and other economic and political factors over which the Company has no control. Other risks and uncertainties may be described from time to time in the Company's other reports and filings with the Securities and Exchange Commission.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

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

Interest Rate Risk: The Company is exposed to interest rate risk through its borrowing activities, which are further described in Footnote 4 "Long Term Debt and Other Liabilities." The majority of the Company's borrowings are in long-term fixed rate bonds. Therefore, the market rate risk associated with a 100 basis point change in interest rates would not be material to the Company at the present time.

Currency Exchange Rate Risk: 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 (export sales and purchases commitments) and the dates they are consummated (cash receipts and cash disbursements in foreign currencies). The Company utilizes some natural hedging to mitigate these transaction exposures. The Company also enters into foreign currency forward contracts for the purchase and sale of European and North American currencies to hedge balance sheet and income statement currency exposures. These contracts are principally entered into for the purchase of inventory and equipment and the sale of Company products into export markets. Counter-parties for these instruments are major financial institutions. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or are recorded in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The Company does not enter into derivative financial instruments for trading purposes nor is it a party to any leveraged financial instruments.

Currency forward contracts are used to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 60-80% of the sales value of these orders is covered by forward contracts. Maturity dates of the forward contracts are intended to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other income and expense. The Company also enters currency forward contracts for committed or anticipated equipment and inventory purchases. Generally 50-75% of the asset cost is covered by forward contracts although 100% of the asset cost may be covered by contracts in certain instances. Forward contracts are matched with the anticipated date of delivery of the assets and gains and losses are recorded as a component of the asset cost for purchase transactions the Company is firmly committed. For anticipated purchase transactions, gains or losses on hedge contracts are accumulated in Other Comprehensive Income (Loss) and periodically evaluated to assess hedge effectiveness. In fiscal year 2001, the Company recorded and subsequently wrote off approximately \$4.7 million of accumulated losses on hedge contracts associated with the anticipated purchase of machinery that was later canceled. The contracts entered into for anticipated purchase commitments were subsequently unwound by entering into sales contracts with identical remaining maturities and contract values. These purchase and sales contracts continued to be marked to market with offsetting gain and losses until they matured. The latest maturity for all outstanding purchase and sales foreign currency forward contracts are October 2003 and June 2004, respectively.

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

	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands)		
Foreign currency purchase contracts:			
Notional amount	\$ 2,926	\$ 3,011	\$ 14,400
Fair value	2,658	3,114	12,439
Net (gain) loss	\$ 268	\$ (103)	\$ 1,961
Foreign currency sales contracts:			
Notional amount	\$ 18,530	\$ 17,256	\$ 28,820
Fair value	17,945	16,769	29,369
Net (gain) loss	\$ (585)	\$ (487)	\$ 549

The fair values of the foreign exchange forward contracts at the respective year-end dates are based on year-end forward currency rates. For the fiscal years ended June 29, 2003, June 30, 2002 and June 24, 2001, the total impact of foreign currency related items on the Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pretax gain of \$0.7 million and pretax losses of \$0.3 million and \$9.5 million, respectively. See Footnote 10 "Derivative Financial Instruments and Fair Value of Financial Instruments" for further discussion.

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

Item 8. Consolidated Financial Statements and Supplementary Data

The Company's report of independent auditors and consolidated financial statements and related notes follow on subsequent pages of this Report.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of Unifi, Inc.

We have audited the accompanying consolidated balance sheets of Unifi, Inc. as of June 29, 2003, and June 30, 2002, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended June 29, 2003. Our audits also included the Valuation and Qualifying Accounts financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. The consolidated financial statements of Parkdale America, LLC, (a corporation in which the Company has a 34% interest), as of December 28, 2002 and for the year then ended, have been audited by other auditors whose report has been furnished to us; insofar as our opinion on the consolidated financial statements relates to the amounts included for periods on or before December 28, 2002, for Parkdale America, LLC, it is based solely on their report. In the consolidated financial statements, the Company's investment in Parkdale America, LLC is stated at \$150,585,678 at June 29, 2003, and the Company's equity in the net income of Parkdale America, LLC is stated at \$11,749,405 for the year then ended.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unifi, Inc. at June 29, 2003 and June 30, 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 29, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the financial statements, in 2002 the Company adopted Statement of Financial Accounting Standard No. 142, requiring the Company to cease the amortization of goodwill and instead review goodwill for impairment on adoption and annually thereafter.

Ernst + Young LLP

Greensboro, North Carolina

July 17, 2003

CONSOLIDATED BALANCE SHEETS

	June 29, 2003	June 30, 2002
ASSETS		
(Amounts in thousands, except per share data)		
Current assets:		
Cash and cash equivalents	\$ 76,801	\$ 19,105
Receivables, net	130,775	151,457
Inventories	118,436	111,843
Other current assets	8,235	14,548
	334,247	296,953
Property, plant and equipment:		
Land	5,932	5,474
Buildings and improvements	242,005	228,104
Machinery and equipment	827,009	807,642
Other	139,969	138,550
	1,214,915	1,179,770
Less accumulated depreciation	(770,102)	(691,301)
	444,813	488,469
Investment in unconsolidated affiliates	173,731	180,930
Goodwill	13,462	13,462
Other intangible assets, net of accumulated amortization	215	1,248
Other noncurrent assets	21,668	30,401
	\$ 988,136	\$ 1,011,463
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 80,972	\$ 72,208
Accrued expenses	60,288	48,995
Income taxes payable	1,729	—
Current maturities of long-term debt and other current liabilities	7,285	8,282
	150,274	129,485
Long-term debt and other liabilities	259,395	280,267
Deferred income taxes	87,814	92,512
Minority interests	10,905	11,159
Commitments and contingencies (Footnote 18)		
Shareholders' equity:		
Common stock, \$0.10 par (500,000 shares authorized, 53,399 and 53,851 shares outstanding)	5,340	5,385
Capital in excess of par value	—	220
Retained earnings	515,572	545,435
Unearned compensation	(302)	(874)
Accumulated other comprehensive loss	(40,862)	(52,126)
	479,748	498,040
	\$ 988,136	\$ 1,011,463

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended		
	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands, except per share data)		
Net sales	\$ 849,116	\$ 914,716	\$ 1,131,157
Cost of sales	777,812	840,164	1,034,044
Selling, general and administrative expense	53,676	49,964	62,786
Provision for bad debts	3,936	6,285	8,202
Interest expense	19,900	22,956	30,123
Interest income	(1,883)	(2,559)	(2,549)
Other (income) expense, net	(1,350)	3,239	8,077
Equity in (earnings) losses of unconsolidated affiliates	(10,627)	1,704	(2,930)
Minority interest	4,769	—	2,590
Employee severance and related charges	16,893	—	7,545
Arbitration costs and expenses	19,185	1,129	—
Alliance plant closure costs (recovery)	(3,486)	—	15,000
Asset impairments and write downs	—	—	24,541
	(29,709)	(8,166)	(56,272)
Loss before income taxes and cumulative effect of accounting change			
Benefit for income taxes	(2,532)	(2,092)	(11,598)
	(27,177)	(6,074)	(44,674)
Loss before cumulative effect of accounting change			
Cumulative effect of accounting change (net of applicable income tax benefit of \$8,420 in 2002)	—	37,851	—
	\$ (27,177)	\$ (43,925)	\$ (44,674)
Net loss			
Losses per common share (basic and diluted):			
Loss before cumulative effect of accounting change	\$ (.51)	\$ (.11)	\$ (.83)
Cumulative effect of accounting change	—	(.71)	—
	\$ (.51)	\$ (.82)	\$ (.83)
Net loss per common share			

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

CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Unearned Compensation	Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income (Loss) Note 1
(Amounts in thousands)								
Balance June 25, 2000	55,157	\$ 5,516	\$ —	\$ 649,444	\$ (1,260)	\$ (31,262)	\$ 622,438	
Purchase of stock	(1,436)	(144)	(1,020)	(15,410)	—	—	(16,574)	—
Issuance of restricted stock	104	10	1,020	—	(1,030)	—	—	—
Amortization of restricted stock	—	—	—	—	1,087	—	1,087	—
Currency translation adjustments	—	—	—	—	—	(21,734)	(21,734)	\$ (21,734)
Net loss	—	—	—	(44,674)	—	—	(44,674)	(44,674)
Balance June 24, 2001	53,825	5,382	—	589,360	(1,203)	(52,996)	540,543	\$ (66,408)
Purchase of stock	(2)	—	(16)	—	—	—	(16)	—
Options exercised	13	1	104	—	—	—	105	—
Issuance of restricted stock	15	2	132	—	(134)	—	—	—
Amortization of restricted stock	—	—	—	—	463	—	463	—
Currency translation adjustments	—	—	—	—	—	870	870	\$ 870
Net loss	—	—	—	(43,925)	—	—	(43,925)	(43,925)
Balance June 30, 2002	53,851	5,385	220	545,435	(874)	(52,126)	498,040	\$ (43,055)
Purchase of stock	(451)	(45)	(208)	(2,686)	—	—	(2,939)	—
Cancellation of unvested restricted stock	(1)	—	(12)	—	12	—	—	—
Amortization of restricted stock	—	—	—	—	560	—	560	—
Currency translation adjustments	—	—	—	—	—	11,264	11,264	\$ 11,264
Net loss	—	—	—	(27,177)	—	—	(27,177)	(27,177)
Balance June 29, 2003	53,399	\$ 5,340	\$ —	\$515,572	\$ (302)	\$ (40,862)	\$ 479,748	\$ (15,913)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended		
	June 29, 2003	June 30, 2002	June 24, 2001
		(Amounts in thousands)	
Cash and cash equivalents at beginning of year	\$ 19,105	\$ 6,634	\$ 18,778
Operating activities:			
Net loss	(27,177)	(43,925)	(44,674)
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change (net of applicable income tax benefit)	—	37,851	—
Net (income) loss of unconsolidated equity affiliates, net of distributions	4,203	2,438	23,204
Depreciation	69,699	73,899	81,114
Amortization	3,340	4,823	9,035
Non-cash compensation, forgiveness of debt	—	1,175	—
Non-cash portion of restructuring charges	13,182	—	43,478
Deferred income taxes	(4,698)	4,405	(1,554)
Provision for bad debts and quality claims	4,023	12,123	14,985
Other	1,924	2,940	72
Changes in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments:			
Receivables	13,656	13,833	14,223
Inventories	(4,027)	9,899	17,221
Other current assets	169	(239)	1,214
Accounts payable and accrued expenses	7,734	(36,947)	3,285
Income taxes	13,681	7,386	(9,971)
Net cash provided by operating activities	<u>95,709</u>	<u>89,661</u>	<u>151,632</u>
Investing activities:			
Capital expenditures	(23,527)	(10,401)	(42,337)
Acquisitions	—	—	(2,159)
Investments in unconsolidated equity affiliates	—	(11,191)	(15,537)
Return of capital from equity affiliates	4,238	—	25,743
Investment of foreign restricted assets	—	(3,062)	(6,770)
Collection of notes receivable	7,604	—	—
Proceeds from sale of capital assets	301	8,387	41,725
Other	(194)	(4,982)	(887)
Net cash used in investing activities	<u>(11,578)</u>	<u>(21,249)</u>	<u>(222)</u>
Financing activities:			
Borrowing of long-term debt	748,361	674,838	355,009
Repayment of long-term debt	(771,361)	(728,214)	(492,450)
Issuance of Company stock	—	105	—
Purchase and retirement of Company stock	(2,939)	(16)	(16,574)
Distributions and advances to minority shareholders	—	—	(12,000)
Other	(3,194)	(2,377)	(375)
Net cash used in financing activities	<u>(29,133)</u>	<u>(55,664)</u>	<u>(166,390)</u>
Effect of exchange rate changes on cash and cash equivalents	2,698	(277)	2,836
Net increase (decrease) in cash and cash equivalents	<u>57,696</u>	<u>12,471</u>	<u>(12,144)</u>
Cash and cash equivalents at end of year	<u>\$ 76,801</u>	<u>\$ 19,105</u>	<u>\$ 6,634</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies and Financial Statement Information

Principles of Consolidation: The Consolidated Financial Statements include the accounts of the Company and all majority-owned subsidiaries. The portion of the income applicable to noncontrolling interests in the majority-owned operations is reflected as minority interests in the Consolidated Statements of Operations. The accounts of all foreign subsidiaries have been included on the basis of fiscal periods ended three months or less prior to the dates of the Consolidated Balance Sheets. All significant intercompany accounts and transactions have been eliminated. Investments in 20 to 50% owned companies and partnerships where the Company is able to exercise significant influence, but not control, are accounted for by the equity method and, accordingly, consolidated income includes the Company's share of the affiliates' income or losses.

Fiscal Year: The Company's fiscal year is the fifty-two or fifty-three weeks ending the last Sunday in June. Fiscal years 2003 and 2001 were comprised of fifty-two weeks and fiscal year 2002 consisted of fifty-three weeks.

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

Revenue Recognition: Revenues from sales are recognized at the time shipments are made and include amounts billed to customers for shipping and handling. Costs associated with shipping and handling are included in cost of sales in the Consolidated Statements of Operations.

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

Cash and Cash Equivalents: Cash equivalents are defined as short-term investments having an original maturity of three months or less.

Receivables: Certain customer accounts receivable are factored without recourse. Factored accounts receivable at June 29, 2003, and June 30, 2002, were \$20.1 million and \$36.6 million, respectively. An allowance for losses is provided for known and potential losses arising from yarn quality claims and for amounts owed by customers that are not factored. Reserves for yarn quality claims are based on historical experience and known pending claims. The collectibility of non-factored accounts receivable is based on a combination of factors including the aging of accounts receivable, write-off experience and the financial condition of specific customers. Accounts are written off when they are no longer deemed to be collectible. General reserves are established based on the percentages applied to accounts receivables aged for certain periods of time and are supplemented by specific reserves for certain customer accounts where collection is no longer certain. Establishing reserves for yarn claims and bad debts requires management judgment and estimates, which may impact the ending accounts receivable valuation, gross margins (for yarn claims) and the provision for bad debts. The reserve for such losses was \$12.3 million at June 29, 2003 and \$10.7 million at June 30, 2002.

Inventories: The Company utilizes the last-in, first-out ("LIFO") method for valuing certain inventories representing 45.4% and 47.3% of all inventories at June 29, 2003, and June 30, 2002, respectively, and the first-in, first-out ("FIFO") method for all other inventories. Inventory values computed by the LIFO method are lower than current market values. Inventories valued at current or replacement cost would have been approximately \$1.4 million and \$1.1 million in excess of the LIFO valuation at June 29, 2003, and June 30, 2002, respectively. The Company experienced a LIFO liquidation in fiscal 2002 resulting in the recognition of approximately \$0.5 million in pre-tax income. The Company maintains reserves for inventories valued utilizing the FIFO method and may provide for additional reserves over and above the LIFO reserve for inventories valued at LIFO. Such reserves for both FIFO and LIFO valued inventories can be specific to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

certain inventory or general based on judgments about the overall condition of the inventory. General reserves are established based on percentage markdowns applied to inventories aged for certain time periods. Specific reserves are established based on a determination of the obsolescence of the inventory and whether the inventory value exceeds amounts to be recovered through expected sales prices, less selling costs; and, for inventory subject to LIFO, the amount of existing LIFO reserves. Due to declining prices of raw materials over the past several years and lower inventory levels, the available LIFO reserve has been depleted significantly requiring that supplemental reserves be established. Estimating sales prices, establishing markdown percentages and evaluating the condition of the inventories require judgments and estimates, which may impact the ending inventory valuation and gross margins. The total inventory reserves on the Company's books, including LIFO reserves, at June 29, 2003 and June 30, 2002 were \$7.0 million and \$4.6 million, respectively. The following table reflects the composition of the Company's inventory as of June 29, 2003 and June 30, 2002:

	June 29, 2003	June 30, 2002
	(Amounts in thousands)	
Raw materials and supplies	\$ 56,855	\$ 52,531
Work in process	9,171	12,103
Finished goods	52,410	47,209
	\$ 118,436	\$ 111,843

Property, Plant and Equipment: Property, plant and equipment are stated at cost. Depreciation is computed for asset groups primarily utilizing the straight-line method for financial reporting and accelerated methods for tax reporting. For financial reporting purposes, asset lives have been assigned to asset categories over periods ranging between three and forty years.

Goodwill and Other Intangible Assets: Goodwill and other intangible assets at June 29, 2003 consist of acquisition related assets and other intangibles of \$13.5 million and \$0.2 million, respectively compared to \$13.5 million and \$1.2 million, respectively at June 30, 2002. See Footnote 15 "Consolidation and Cost Reduction Efforts" for further discussion on fiscal year 2001 activity that impacted goodwill and other intangible assets.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," (SFAS 141) and No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 required that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited after this date. SFAS 141 also included guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination completed after June 30, 2001. The Company adopted SFAS 141 on July 1, 2001.

Prior to fiscal year 2002, acquisition related assets, principally goodwill, were amortized on the straight-line method over periods ranging between fifteen and thirty years. SFAS 142, which the Company early adopted on June 25, 2001, no longer permitted the amortization of goodwill and indefinite-lived intangible assets. Instead, SFAS 142 required that these assets be reviewed for impairment upon adoption and annually thereafter, unless specific circumstances indicate that a more timely review is warranted. This impairment test uses a fair value approach rather than the undiscounted cash flows approach previously required by SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" (SFAS 121). Determining fair value involves estimates and judgments that are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. In addition, future events impacting cash flows for existing assets could render a writedown necessary that previously required no such writedown. Amortization of goodwill included in investments in equity investees was also prohibited upon adoption of SFAS 142. However, equity method

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

goodwill will continue to be reviewed for impairment in accordance with APB Opinion No. 18 "The Equity Method of Accounting for Investments in Common Stock."

Upon adoption of SFAS 142, the Company was required to review goodwill for impairment based on transitional testing guidance provided for in the standard. Based on the results of the analysis, the goodwill associated with our nylon reporting segment was deemed to be impaired and the Company recorded a charge of \$46.3 million (\$37.9 million or \$(.71) per diluted share net of taxes) as a cumulative effect of accounting change. See Footnote 3 "Cumulative Effect of Accounting Change" for further discussion of this adjustment. The goodwill remaining on the Consolidated Balance Sheet at June 29, 2003 and June 20, 2002 is associated with the Company's polyester reporting segment and is deductible for tax purposes.

The accumulated amortization as of June 29, 2003 and June 30, 2002 associated with goodwill that remains on the Company's books at June 29, 2003 for which no amortization expense was recognized in fiscal year 2003 in accordance with SFAS 142 was \$1.5 million as of both dates. The following table reconciles the reported net loss for fiscal year 2001 to what would have been reported absent amortization of goodwill:

	June 24, 2001
	(Amounts in thousands, except per share amounts)
Net loss as reported	\$ (44,674)
Add back: Goodwill amortization, net of tax	3,058
Adjusted net loss	\$ (41,616)
Diluted net loss per share:	
As reported	\$ (.83)
Adjusted for goodwill amortization add back	\$ (.77)

Other intangible assets subject to amortization consisted primarily of non-compete agreements entered in connection with business combinations and are being amortized over the terms of the agreements, principally five years. There are no residual values related to these intangible assets. Upon adoption of SFAS 142, the Company was required to reassess the useful lives and residual values of all acquired intangible assets and make any necessary amortization period adjustments. The Company performed this analysis and, based on that assessment, no adjustments were required to be made to the amortization periods or to residual values of the Company's existing intangible assets. These intangible assets will continue to be amortized over their remaining useful lives and reviewed for impairment in accordance with SFAS 142. The estimated annual amortization expense associated with the remaining intangibles is \$0.2 million for fiscal year 2004. Accumulated amortization at June 29, 2003 and June 30, 2002 for these intangible assets was \$10.5 million and \$9.4 million, respectively.

Other Noncurrent Assets: Other noncurrent assets at June 29, 2003, and June 30, 2002, consist primarily of the cash surrender value of key executive life insurance policies (\$8.2 million and \$9.6 million); unamortized bond issue costs and debt origination fees (\$4.4 million and \$6.0 million); restricted cash investments in Brazil (\$6.7 million and \$4.9 million) and various notes receivable due from both affiliated and non-affiliated parties (\$1.9 million and \$6.0 million), respectively. Debt related origination costs have been amortized on the straight-line method over the life of the corresponding debt, which approximates the effective interest method. Accumulated amortization at June 29, 2003, and June 30, 2002, for unamortized debt origination costs at June 29, 2003 was \$5.4 million and \$3.6 million, respectively. In the current fiscal year, the Company notified its lender of a \$50.0 million permanent reduction of the total facility amount, and in fiscal year 2002, the Company refinanced certain debt agreements. These transactions resulted in the origination of new debt fees in fiscal year 2002 and the write-off of previously unamortized fees associated with the permanent reduction in the facility amount in fiscal year 2003. See Footnote 4 "Long-term Debt and Other Liabilities" for further discussion regarding these refinancing activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets held and used, an impairment may occur if projected undiscounted cash flows are not adequate to cover the carrying value of the assets. In such cases, additional analysis is conducted to determine the amount of loss to be recognized. The impairment loss is determined by the difference between the carrying amount of the asset and the fair value measured by future discounted cash flows. The analysis conducted requires estimates of the amount and timing of projected cash flows and, where applicable, judgments associated with, among other factors, the appropriate discount rate. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. In addition, future events impacting cash flows for existing assets could render a writedown necessary that previously required no such writedown.

For assets held for disposal, an impairment charge is recognized if the carrying value of the assets exceeds the fair value less costs to sell. Estimates are required of fair value, disposal costs and the time period to dispose of the assets. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. Actual cash flows received or paid could differ from those used in estimating the impairment loss, which would impact the impairment charge ultimately recognized and the Company's cash flows. See Recent Accounting Pronouncements in this footnote for new accounting guidance associated with long-lived assets held and used and held for disposal.

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

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

	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands)		
Numerator:			
Loss before cumulative effect of accounting change	\$ (27,177)	\$ (6,074)	\$ (44,674)
Cumulative effect of accounting change	—	(37,851)	—
Net loss	\$ (27,177)	\$ (43,925)	\$ (44,674)
Denominator:			
Denominator for basic losses per share — weighted average shares	53,761	53,730	53,868
Effect of dilutive securities:			
Stock options	—	—	—
Restricted stock awards	—	—	—
Diluted potential common shares denominator for diluted losses per share — adjusted weighted average shares and assumed conversions	53,761	53,730	53,868

Stock-Based Compensation: With the adoption of SFAS 123, the Company elected to continue to measure compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Had the fair value-based method under SFAS 148 been applied, compensation expense would have been recorded for the options outstanding in fiscal years 2003, 2002 and 2001 based on their respective vesting schedules.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net loss in fiscal 2003, 2002 and 2001 on a proforma basis assuming SFAS 123 has been applied would have been as follows:

	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands, except per share amounts)		
Net loss as reported	\$ (27,177)	\$ (43,925)	\$ (44,674)
Adjustment: Impact of stock options	(3,204)	(6,363)	(5,068)
Adjusted net loss	\$ (30,381)	\$ (50,288)	\$ (49,742)
Diluted net income (loss) per share:			
As reported	\$ (.51)	\$ (.82)	\$ (.83)
Adjusted for stock option expense	\$ (.57)	\$ (.94)	\$ (.92)

No stock options were granted during fiscal 2003. The fair value and related compensation expense of the 2002 and 2001 options were calculated as of the issuance date using the Black-Scholes model with the following assumptions:

Options Granted	2002	2001
Expected life (years)	8.9	10.0
Interest rate	4.35%	6.00%
Volatility	41.8%	47.7%
Dividend yield	—	—

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

Recent Accounting Pronouncements: In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140). SFAS 140 replaces Statement of Financial Accounting Standard No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 125). SFAS 140 revises the standards for accounting and for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but carries over most of SFAS 125's provisions. SFAS 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on a financial-components approach that focuses on control. This standard is applied prospectively and was effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Adopting this standard had no material impact on consolidated financial position or results of operations of the Company.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," (SFAS 141) and No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). See "Goodwill and Other Intangible Assets" above for further discussion of SFAS 141 and 142 and the impact on the Consolidated Financial Statements of adopting these standards in the Company's fiscal year 2002.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 143 "Accounting for Asset Retirement Obligations" (SFAS 143). This standard applies to all entities and addresses legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

incurred if a reasonable estimate of fair value can be made. Additionally, any associated asset retirement costs are to be capitalized as part of the carrying amount of the long-lived asset and expensed over the life of the asset. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Adopting this standard had no material impact on consolidated financial position or results of operations of the Company.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 supersedes Statement of Financial Accounting Standard No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS 121), and the accounting and reporting provisions of APB Opinion No. 30 "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30), for the disposal of a segment of a business (as previously defined). SFAS 144 also amends ARB No. 51 "Consolidated Financial Statements" to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS 144 establishes a single accounting model for long-lived assets to be disposed of, which previously had been accounted for either under APB 30 or under SFAS 121. Specifically, SFAS 121 did not address the accounting for a segment of a business accounted for as a discontinued operation, which was provided for under APB 30. The new accounting framework under SFAS 144 is based on the guidance provided under SFAS 121 for assets to be disposed of by sale.

In addition to establishing a single framework for long-lived assets to be disposed of, SFAS 144 resolves implementation issues related to SFAS 121. With respect to long-lived assets to be held and used, SFAS 144 retains the requirements of SFAS 121 to recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and to measure the impairment loss as the difference between the carrying amount and fair value of the asset. SFAS 144, however, excludes goodwill from its scope and therefore eliminates the requirements of SFAS 121 to allocate goodwill to long-lived assets for impairment testing. In addition, SFAS 144 addresses situations in which alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or where a range is estimated for the amount of potential future cash flows. In such situations, SFAS 144 provides for a probability-weighted cash flow estimation approach. SFAS 144 also establishes a primary-asset approach to determine the cash flow estimation period for a group of assets and liabilities representing the unit of accounting for a long-lived asset to be held and used. For long-lived assets to be disposed of other than by sale (such as abandonment, exchange for a similar productive asset or distribution to owners in a spin-off), SFAS 144 requires that the assets be considered held and used until disposed of. In such cases, the depreciable life of the assets should be revised in accordance with APB Opinion No. 20 "Accounting Changes," and, as an amendment to APB Opinion No. 29 "Accounting for Nonmonetary Transactions," also requires that an impairment loss be recognized at the time a long-lived asset is exchanged for a similar productive asset or distributed to owners in a spin-off if the carrying value of the assets exceeds its fair value. Finally, for long-lived assets to be disposed of by sale, SFAS 144 is to be used for all such long-lived assets whether previously held and used or recently acquired. SFAS 144 retains the requirement of SFAS 121 to measure a long-lived asset classified as held for sale at the lower of its carrying amount or fair value less cost to sell and to stop depreciation or amortization of the asset. Consequently, discontinued operations are no longer to be measured on a net realizable basis and future operating losses are no longer to be recognized before they occur. The presentation of discontinued operations in the income statement still follows the basic provisions of APB 30 but is now broadened to include a component of an entity rather than a segment of a business. SFAS 144 provides implementation guidance to determine when a long-lived asset is held for sale and also provides guidance for situations in which the criteria for an asset to be considered held for sale are met after the balance sheet date but before issuance of the financial statements. In addition, SFAS 144 provides guidance for assets previously considered held for sale and subsequently reclassified as held and used.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

SFAS 144 is effective for fiscal years beginning after December 15, 2001 and for interim periods within those fiscal years. Adopting this standard had no material impact on consolidated financial position or results of operations of the Company.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS 145). SFAS 145, among other changes, now requires that gains and losses from extinguishments of debt be classified as extraordinary items only if they meet the criteria in APB Opinion No. 30 "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." In order to correct previously existing inconsistencies in accounting treatment for transactions with similar economic characteristics, SFAS 145 also requires that certain lease modifications that have economic characteristics similar to sales-leaseback transactions be accounted for as sales-leaseback transactions. SFAS 145 also addresses other various technical corrections that are not substantive in nature or have no effect on the Company. SFAS 145 was effective for financial statements issued on or after May 15, 2002. Adopting this standard had no impact on consolidated financial position or results of operations of the Company.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF 94-3). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and established that fair value should be used for initial measurement of the liability. Under EITF 94-3, a liability for an exit cost was recognized at the date an entity committed to an exit plan. Under conclusions reached in SFAS 146, committing to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. Consequently, the definition and requirements for recognition of exit costs in EITF 94-3 have been eliminated. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Adopting this standard had no impact on consolidated financial position or results of operations of the Company.

In December 2002, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123" (FAS 148). This statement amends SFAS No. 123 "Accounting for Stock Based Compensation" (FAS 123) to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. FAS 148 also amends the disclosure requirements of FAS 123 to require disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements. The disclosure provisions were first effective for the Company beginning with its most recently filed quarterly report on Form 10-Q. The annual impact of a change to the fair value module prescribed by FAS 123 has been disclosed in the Company's previous annual 10-K filings, and the applicable disclosures in this report are here in Note 1 and Note 6. At this time, the Company plans to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," rather than change to the FAS 123 fair value method.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", addresses consolidation of variable interest entities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary if the entity does not effectively disperse risks among the parties involved. The provisions of FIN 46 are effective immediately for those variable interest entities created after January 31, 2003. The provisions are effective for the first period beginning after June 15, 2003 for those variable interests held prior to February 1, 2003. The Company does

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

not expect the provisions of FIN 46 to materially affect the Company's consolidated financial position or results of operations.

Use of Estimates: The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Acquisitions and Divestures

On May 22, 2001, the Company assumed operating control of Glen Raven's air jet texturing assets located in Altamahaw, North Carolina. The agreement between Glen Raven and the Company is structured as an operating lease whereby the air texturing equipment and manufacturing location will be leased from Glen Raven over a seven-year term. The Glen Raven employees at the Altamahaw plant became Unifi employees.

On June 22, 2001, the Company completed the sale of the assets of its wholly owned subsidiary, Unifi Technical Fabrics, LLC, to Avgol Nonwovens Industries of Holon, Israel. There were substantially no sales or other operating activities associated with these assets prior to the date of sale.

In June 2001, the consulting operations of the Company's majority-owned subsidiary, UTG were sold to Camstar Technology Group, Inc. UTG was formed in fiscal year 1999 to provide consulting services focused on integrated manufacturing, factory automation and electronic commerce solutions to other domestic manufacturers. Effective June 1, 1999, UTG acquired the assets of Cimtec, Inc. ("Cimtec"), a manufacturing automation solutions provider, for \$10.5 million. The remaining UTG operations, conducting business under the name Cimtec Automation, Inc. after the sale of the consulting operation, was sold in January 2002. These operations were originally acquired on June 1, 1999 as part of the Cimtec business and involved the sale and repair of certain computer hardware.

The combined sales proceeds from the divestures described in the preceding two paragraphs totaled approximately \$39.4 million.

The Glen Raven and Cimtec acquisitions were all accounted for by the purchase method of accounting and accordingly, the net assets and operations have been included in the Company's Consolidated Financial Statements beginning on the date the acquisition was consummated. The transactions are not considered significant to the Company's consolidated net assets or results of operations.

3. Cumulative Effect of Accounting Change

In June 2001, the Financial Accounting Standards Board issued Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), which prohibits companies from amortizing goodwill and other indefinite-lived intangible assets and, alternatively, requires them to review the assets for impairment annually or more frequently under certain conditions. The Company adopted SFAS 142 on June 25, 2001. In accordance with the transition provisions of this standard, the Company concluded step one of the transitional goodwill impairment test for all of the reporting units of the Company in the second quarter of fiscal year 2002. The results of this phase of the transition testing indicated that the goodwill associated with the nylon business segment might have been impaired. As required by the transitional impairment test provisions, the Company determined whether an impairment loss existed and how much, if any, of the loss was to be recognized. Based upon the results of concluding this step of the transition testing in the fourth quarter of fiscal 2002, all of the goodwill associated with the nylon segment was deemed to be impaired and was subsequently written off. In accordance with the provisions of SFAS 142, any impairment losses recognized upon initial adoption of this standard were required to be written-off as a cumulative effect of a change in accounting principle effective as of the beginning of the fiscal year in which the standard was adopted. Consequently, the Company wrote off the unamortized balance of the goodwill associated with the nylon

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

business segment as of June 25, 2001, of \$46.3 million (\$37.9 million after tax) or \$.71 per diluted share as a cumulative effect of an accounting change.

4. Long-Term Debt and Other Liabilities

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

	June 29, 2003	June 30, 2002
	(Amounts in thousands)	
Bonds payable	\$249,064	\$248,860
Revolving credit facility dated December 7, 2001	—	23,000
Sale-leaseback obligation	2,929	3,046
Other obligations	14,687	13,643
	266,680	288,549
Total debt	266,680	288,549
Current maturities	(7,285)	(8,282)
	\$259,395	\$280,267
Total long-term debt and other liabilities	\$259,395	\$280,267

On February 5, 1998, the Company issued \$250 million of senior, unsecured debt securities (the "Notes") which bear a coupon rate of 6.50% and mature in 2008. The estimated fair value of the Notes, based on quoted market prices, at June 29, 2003, and June 30, 2002, was approximately \$211.3 million and \$200.0 million, respectively.

On December 7, 2001, the Company refinanced its \$150 million revolving bank credit facility, as amended, and its \$100 million accounts receivable securitization, which were entered into on December 20, 2000, with a new five-year \$150 million asset based revolving credit agreement (the "Credit Agreement"). On October 29, 2002 the Company notified its lender of a \$50.0 million permanent reduction of the total facility amount, resulting in a total facility amount of \$100.0 million effective January 1, 2003. The Credit Agreement is secured by substantially all U.S. assets excluding manufacturing facilities and manufacturing equipment. Borrowing availability is based on eligible domestic accounts receivable and inventory. As of June 29, 2003, the Company had no outstanding borrowings and availability of \$98.0 million under the terms of the Credit Agreement.

Borrowings under the Credit Agreement bear interest at LIBOR plus 2.50% and/or prime plus 1.00%, at the Company's option through February 28, 2003. Effective March 1, 2003, borrowing under the Credit Agreement bear interest at rates selected periodically by the Company of LIBOR plus 1.75% to 3.00% and/or prime plus 0.25% to 1.50%. The interest rate matrix is based on the Company's leverage ratio of funded debt to EBITDA, as defined by the Credit Agreement. The interest rate in effect at June 29, 2003 was 3.62%. Under the Credit Agreement, the Company pays an unused line fee ranging from 0.25% to 0.50% per annum on the unused portion of the commitment. In connection with the refinancing, the Company incurred fees and expenses aggregating \$1.9 million, which are being amortized over the term of the Credit Agreement. Due to the reduction in the facility effective January 1, 2003, the Company wrote off \$0.5 million of the related unamortized fees and expenses. In addition, \$0.5 million of unamortized fees related to the previously outstanding debt facilities were charged to operations in the second quarter of fiscal year 2002.

The Credit Agreement contains customary covenants for asset based loans that restrict future borrowings and capital spending. In addition, if borrowing capacity is less than \$25.0 million at any time during the quarter, covenants include a required minimum fixed charge coverage ratio of 1.1 to 1.0 and a required maximum leverage ratio of 5.0 to 1.0. At June 29, 2003, the Company was in compliance with all covenants under the Credit Agreement.

On May 20, 1997, the Company entered into a sales-leaseback agreement with a financial institution whereby land, buildings and associated real and personal property improvements of certain manufacturing

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

facilities were sold to the financial institution and will be leased by the Company over a sixteen-year period. This transaction has been recorded as a direct financing arrangement. On June 30, 1997, the Company entered into a Contribution Agreement associated with the formation of Parkdale America, LLC (see Footnote 11 "Investment in Unconsolidated Affiliates" for further discussion). As a part of the Contribution Agreement, ownership of a significant portion of the assets financed under the sales-leaseback agreement and the related debt (\$23.5 million) were assumed by the LLC. Payments for the remaining balance of the sales-leaseback agreement are due semi-annually and are in varying amounts, in accordance with the agreement. Average annual principal payments over the next five years are approximately \$0.3 million. The interest rate implicit in the agreement is 7.84%.

Other obligations consist primarily of acquisition-related liabilities and advances from the Brazilian government. These obligations mature \$7.1 million in fiscal year 2004 and \$7.6 million in fiscal year 2005.

Interest capitalized during fiscal 2003 and 2002 was \$0 and \$0.2 million, respectively.

5. Income Taxes

The provision for income taxes for fiscal 2003, 2002 and 2001 consists of the following:

	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands)		
Currently payable (recoverable):			
Federal	\$ (746)	\$ (6,290)	\$ (6,005)
State	790	330	666
Foreign	2,122	747	108
Total current	<u>2,166</u>	<u>(5,213)</u>	<u>(5,231)</u>
Deferred:			
Federal	(4,219)	3,395	(4,239)
State	(846)	(274)	(1,325)
Foreign	367	—	(803)
Total deferred	<u>(4,698)</u>	<u>3,121</u>	<u>(6,367)</u>
Income tax benefits before cumulative effect of accounting change (2002)	<u>\$ (2,532)</u>	<u>\$ (2,092)</u>	<u>\$ (11,598)</u>

Income tax benefits were 8.5%, 25.6% and 20.6% of pretax losses in fiscal 2003, 2002 and 2001, respectively. A reconciliation of the provision for income tax benefits (before the cumulative effect of accounting change in 2002) with the amounts obtained by applying the federal statutory tax rate is as follows:

	June 29, 2003	June 30, 2002	June 24, 2001
Federal statutory tax rate	(35.0%)	(35.0%)	(35.0%)
State income taxes net of federal tax benefit	0.5	1.4	(0.5)
State tax credits net of federal tax benefit	—	(1.8)	(0.4)
Loss of state net operating loss carry forward	5.1	—	—
Foreign taxes less than domestic rate	(6.1)	(11.4)	—
Foreign tax benefit of losses less than domestic rate	13.2	15.5	16.8
Extraterritorial income exclusion	—	(1.0)	(0.8)
Research and experimentation credit	—	(0.6)	(0.1)
Increase in valuation allowance	9.1	—	—
Nondeductible expenses and other	4.7	7.3	(0.6)
Effective tax rate	<u>(8.5%)</u>	<u>(25.6%)</u>	<u>(20.6%)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The deferred income taxes reflect the net tax effects of temporary differences between the bases of assets and liabilities for financial reporting purposes and their bases for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of June 29, 2003, and June 30, 2002, were as follows:

	June 29, 2003	June 30, 2002
(Amounts in thousands)		
Deferred tax liabilities:		
Property, plant and equipment	\$ 95,780	\$ 99,404
Investments in equity affiliates	18,081	16,736
Other	1,636	1,392
Total deferred tax liabilities	115,497	117,532
Deferred tax assets:		
Accrued liabilities and valuation reserves	14,367	8,715
State tax credits	16,048	16,651
Other items	7,768	7,454
Total gross deferred tax assets	38,183	32,820
Valuation allowance	(10,500)	(7,800)
Net deferred tax assets	27,683	25,020
Net deferred tax liability	\$ 87,814	\$ 92,512

As of June 29, 2003, the Company has available for income tax purposes approximately \$6.2 million in federal net operating loss carryforwards that may be used to offset future taxable income. The carryforward expires in fiscal year 2023. The Company also has available for income tax purposes approximately \$24.7 million in North Carolina investment tax credits, for which the Company has established a valuation allowance in the amount of \$10.5 million. The credits expire as set forth in the table below:

Year Ended June 29, 2003	2004	2005	2006	2007	2008	Thereafter
Expiration amount	\$683	\$5,490	\$1,881	\$3,830	\$3,871	\$8,934

6. Common Stock, Stock Option Plans and Restricted Stock

Common shares authorized were 500 million in 2003 and 2002. Common shares outstanding at June 29, 2003, and June 30, 2002, were 53,399,052 and 53,851,576, respectively.

On October 21, 1999, the shareholders of the Company approved the 1999 Unifi, Inc. Long-Term Incentive Plan ("1999 Long-Term Incentive Plan"). The plan authorized the issuance of up to 6,000,000 shares of Common Stock pursuant to the grant or exercise of stock options, including Incentive Stock Options ("ISO"), Non-Qualified Stock Options ("NQSO") and restricted stock, but not more than 3,000,000 shares may be issued as restricted stock. The 2,113,652, and 230,805 incentive stock options granted in fiscal 2002, and 2001, respectively were all from the 1999 Long-Term Incentive Plan. In addition to the 3,374,430 common shares reserved for the options that remain outstanding under grants from the 1999 Long-Term Incentive Plan, the Company has previous ISO plans with 506,342 common shares reserved and previous NQSO plans with 583,175 common shares reserved at June 29, 2003. No additional options will be issued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

under any previous ISO or NQSO plan. The stock option activity for 2003, 2002 and 2001 of all three plans were as follows:

	ISO		NQSO	
	Options Outstanding	Weighted Avg. \$/Share	Options Outstanding	Weighted Avg. \$/Share
Fiscal 2001:				
Shares under option — beginning of year	2,804,594	\$ 14.93	1,229,175	\$ 25.44
Granted	230,805	9.11	—	—
Expired	(177,477)	17.32	(40,000)	29.24
Shares under option — end of year	<u>2,857,922</u>	<u>\$ 14.31</u>	<u>1,189,175</u>	<u>\$ 25.31</u>
Fiscal 2002:				
Granted	2,113,652	\$ 7.60	—	\$ —
Exercised	(12,704)	8.27	—	—
Expired	(875,363)	13.36	(543,500)	25.99
Forfeited	(21,436)	12.13	—	—
Shares under option — end of year	<u>4,062,071</u>	<u>\$ 11.05</u>	<u>645,675</u>	<u>\$ 24.74</u>
Fiscal 2003:				
Expired	(151,103)	\$ 17.50	(62,500)	\$ 25.48
Forfeited	(30,196)	9.06	—	—
Shares under option — end of year	<u>3,880,772</u>	<u>\$ 10.81</u>	<u>583,175</u>	<u>\$ 24.67</u>

	Fiscal 2003	Fiscal 2002	Fiscal 2001
ISO:			
Exercisable shares under option — end of year	2,345,905	1,644,249	1,609,931
Option price range	\$ 7.33-\$25.38	\$ 7.33-\$25.38	\$11.19-\$25.38
Weighted average exercise price for options exercisable	\$ 11.80	\$ 13.91	\$ 16.46
Weighted average remaining life of shares under option	6.0	7.9	7.4
Fair value of options granted	\$ —	\$ 3.46	\$ 5.59
NQSO:			
Exercisable shares under option — end of year	583,175	645,675	1,189,175
Option price range	\$16.31-\$31.00	\$16.31-\$31.00	\$16.31-\$31.00
Weighted average exercise price for options exercisable	\$ 24.67	\$ 24.74	\$ 25.31
Weighted average remaining life of shares under option	3.1	4.0	4.1
Fair value of options granted	\$ —	\$ —	\$ —

Of the 2,113,652 options granted in fiscal 2002, 1,320,000 of these options were issued with one-third of the options vesting immediately and the remaining two-thirds vesting equally on each of the next two anniversary dates. Of the remaining options granted in fiscal 2002, 560,000 were issued with one-sixth of the options vesting immediately and the remaining five-sixths vesting in equal installments over the next five years. The remaining 233,652 options granted in fiscal 2002 and all of the options granted in fiscal 2001 vest in annual increments over five years from the grant date.

During fiscal years 2002 and 2001, the Company issued 15,000 and 104,366 shares respectively, of restricted stock to certain employees under the 1999 Long-Term Incentive Plan. The stock issued vests in equal annual increments ranging from two to five years from the grant dates. Compensation expense is recognized over the vesting terms of the shares based on the fair market value at the date of grant or immediately upon employee termination if vesting is accelerated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Retirement Plans

Effective July 1, 2001, the Company began matching employee contributions made to the Unifi, Inc. Retirement Savings Plan (the "Plan"), an existing 401(k) defined contribution plan, which covers eligible salaried and hourly employees. The Company did not match employee contributions made to the Plan prior to fiscal year 2002. Under the terms of the Plan, the Company matches 100% of the first three percent of eligible employee contributions and 50% of the next two percent of eligible contributions. For fiscal years ended June 29, 2003 and June 30, 2002, the Company incurred \$2.9 million and \$3.0 million, respectively, of expense for its obligations under the matching provisions of the Plan.

Prior to fiscal year 2002, the Company maintained a qualified profit-sharing plan, which provided benefits for eligible salaried and hourly employees. Effective December 31, 2001, the Company terminated the profit sharing plan. All unvested employee accounts were vested upon the termination of the plan and were allowed to be rolled-over to the Unifi, Inc. Retirement Savings Plan (the "Plan"). The annual contribution to the profit sharing plan in fiscal year 2001, which was determined at the discretion of the Board of Directors, amounted to \$5.0 million. The Company previously leased its corporate office building from the profit-sharing plan through an independent trustee. Effective with the termination of the profit sharing plan, the corporate office building was contributed to the Plan. The Company leased its corporate office building from the Plan at fair market value rental rates until August 30, 2002, at which time it bought the building from the Plan at a fair market value price as determined by independent appraisal.

8. Leases and Commitments

In addition to the direct financing sales-leaseback obligation described in Footnote 4 "Long-term Debt and Other Liabilities," the Company is obligated under operating leases consisting primarily of real estate and equipment. Future obligations for minimum rentals under the leases during fiscal years after June 29, 2003, are \$3.5 million in 2004, \$2.9 million in 2005, \$1.6 million in 2006, \$1.3 million in 2007, \$1.3 million in 2008 and \$0.1 million in aggregate thereafter. Rental expense was \$8.5 million, \$8.2 million and \$7.9 million for the fiscal years 2003, 2002 and 2001, respectively. The Company had no significant binding commitments for capital expenditures at June 29, 2003.

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

The Company and its subsidiaries are engaged predominantly in the processing of yarns by texturing of synthetic filament polyester and nylon fiber with sales domestically and internationally, mostly to knitters and weavers for the apparel, industrial, hosiery, home furnishing, automotive upholstery and other end-use markets. Additionally, during fiscal 1999, the Company formed a limited liability company to provide integrated manufacturing, factory automation and electronic commerce solutions to other domestic manufacturers. Effective March 2001, UTG was accounted for as an asset held for sale and did not have any sales or operating income for UTG for the 2003 and 2002 fiscal years. UTG comprises the majority of the amounts included in the "All Other" column for fiscal years 2001. The consulting portion of this business, which represented the majority of this entity's operations, was sold at the end of fiscal year 2001. The operation that remained at the end of fiscal year 2001, which consisted of computer hardware sales and servicing, conducted business under the name Cimtec Automation, Inc. and was sold by the Company in January 2002. See Footnote 2 "Acquisitions and Divestures" for further information regarding these transactions. The Company also maintains investments in several minority-owned and jointly owned affiliates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with Statement of Financial Accounting Standards No. 131, segmented financial information of the polyester and nylon operating segments, as regularly reported to management for the purpose of assessing performance and allocating resources, is detailed below.

	Polyester	Nylon	All Other	Total
(Amounts in thousands)				
Fiscal 2003:				
Net sales to external customers	\$624,773	\$224,343	\$ —	\$ 849,116
Intersegment net sales	794	1,379	—	2,173
Depreciation and amortization	48,314	17,458	—	65,772
Segment operating income (loss)	22,136	(2,576)	—	19,560
Total assets	548,302	184,811	—	733,113
Fiscal 2002:				
Net sales to external customers	\$662,730	\$ 251,986	\$ —	\$ 914,716
Intersegment net sales	40	—	—	40
Depreciation and amortization	51,517	19,020	—	70,537
Segment operating income	19,757	4,757	—	24,514
Total assets	557,097	219,186	—	776,283
Fiscal 2001:				
Net sales to external customers	\$ 791,169	\$ 315,114	\$24,106	\$1,130,389
Intersegment net sales	63	—	9,164	9,227
Depreciation and amortization	57,159	22,616	1,048	80,823
Segment operating income (loss)	28,430	7,392	(1,859)	33,963
Total assets	608,594	292,369	5,076	906,039

Net sales to external customers for fiscal year 2001 does not include \$768 thousand of net sales associated with the Company's wholly owned subsidiary, Unifi Technical Fabrics, LLC ("UTF"), a non-woven start-up operation. This operation was substantially manufacturing and selling off-quality product during its ramp-up phase and had not yet been classified internally as a separate operational segment for purposes of management evaluation. On June 22, 2001, the Company sold UTF to Avgol Nonwovens Industries of Holon, Israel. See Footnote 2 "Acquisitions and Divestures" for further information regarding this transaction.

For purposes of internal management reporting, segment operating income (loss) represents net sales less cost of sales and allocated selling, general and administrative expenses. Certain indirect manufacturing and selling, general and administrative costs are allocated to the operating segments on activity drivers relevant to the respective costs.

The primary differences between the segmented financial information of the operating segments, as reported to management, and the Company's consolidated reporting relates to intersegment transfers of yarn, fiber costing, the provision for bad debts, certain unallocated selling, general and administrative expenses, and capitalization of property, plant and equipment costs.

Domestic operating divisions' fiber costs are valued on a standard cost basis, which approximates first-in, first-out accounting. For those components of inventory valued utilizing the last-in, first-out method (see Footnote 1 "Accounting Policies and Financial Statement Information"), an adjustment is made at the corporate level to record the difference between standard cost and LIFO. Segment operating income excludes the provision for bad debts of \$3.9 million, \$6.3 million and \$8.2 million for fiscal years 2003, 2002 and 2001, respectively. For significant capital projects, capitalization is delayed for management segment reporting until the facility is substantially complete. However, for consolidated financial reporting, assets are capitalized into construction in progress as costs are incurred or carried as unallocated corporate fixed assets if they have been placed in service but have not as yet been moved for management segment reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The change in the polyester segment total assets between fiscal year end 2002 and 2003 reflects an increase in current assets of \$23.0 million, a decrease in fixed assets of \$29.7 million, and a decrease in other assets of \$2.1 million. The current asset increase was primarily due to an increase in cash, inventories and other current assets of \$6.7 million, \$7.0 million and \$5.8 million, respectively. The fixed asset reduction is primarily associated with current year depreciation. The decrease in the nylon segment total assets for this period is a result of a decrease in accounts receivables, inventories and net property and equipment of \$12.3 million, \$4.3 million and \$16.8 million, respectively. The reduction in property and equipment is primarily associated with current year depreciation. The reduction in noncurrent assets between fiscal years 2001 and 2002 relates to the write-off of goodwill during the current year. See "Goodwill and Other Intangibles" under Footnote 1 "Accounting Policies and Financial Statement Information" and Footnote 3 "Cumulative Effect of Accounting Change" for further discussion regarding the goodwill adjustment. The change in total assets for the "All Other" segment reflects the sale of the remaining component of UTG during the 2002 fiscal year.

	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands)		
Depreciation and amortization:			
Depreciation and amortization of specific reportable segment assets	\$ 65,772	\$ 70,537	\$ 80,823
Depreciation of allocated assets	5,028	5,881	7,271
Amortization of allocated assets and deferred compensation	2,239	2,304	2,055
	\$ 73,039	\$ 78,722	\$ 90,149
Operating income (loss):			
Reportable segments operating income	\$ 19,560	\$ 24,514	\$ 33,963
Unallocated start-up operating losses	—	—	2,078
Net standard cost (income) expense adjustment to LIFO	546	(2,750)	(2,781)
Unallocated manufacturing (income) expense	—	70	339
Unallocated selling, general, and administrative expense	1,386	2,606	—
Provision for bad debts	3,936	6,285	8,202
Interest expense	19,900	22,956	30,123
Interest income	(1,883)	(2,559)	(2,549)
Other (income) expense	(1,350)	3,239	8,077
Equity in (earnings) losses of unconsolidated affiliates	(10,627)	1,704	(2,930)
Minority interests	4,769	—	2,590

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands)		
Alliance plant closure costs (recovery)	(3,486)	—	15,000
Asset impairments and write downs	—	—	24,541
Arbitration costs and expenses	19,185	1,129	—
Employee severance and related charges	16,893	—	7,545
Loss before income taxes and cumulative effect of accounting change	\$ (29,709)	\$ (8,166)	\$ (56,272)
Total assets:			
Reportable segments total assets	\$ 733,113	\$ 776,282	\$ 906,039
Corporate current assets, net of LIFO reserve	55,318	22,747	24,720
Unallocated corporate fixed assets	15,901	12,818	16,603
Other non-current corporate assets	30,824	38,430	42,226
Investments in unconsolidated affiliates	173,731	180,930	167,286
Intersegment notes and receivables	(20,751)	(19,744)	(19,555)
Consolidated assets	\$988,136	\$1,011,463	\$1,137,319

The Company's domestic operations serve customers principally located in the southeastern United States as well as international customers located primarily in Canada, Mexico and Israel and various countries in Europe, Central America, South America and South Africa. Export sales from our U.S. operations aggregated \$107.9 million in 2003, \$108.2 million in 2002 and, \$143.4 million in 2001. During fiscal 2003, 2002 and 2001 the Company did not have sales to any one customer in excess of 10% of consolidated revenues. The concentration of credit risk for the Company with respect to trade receivables is mitigated due to the large number of customers, dispersion across different end-uses and geographic regions and its factoring arrangements.

The Company's foreign operations primarily consist of manufacturing operations in Ireland, England, Brazil and Colombia. The Colombian operation was closed in June 2001 in an effort to consolidate operations, and re-opened in August 2002 to fill a need to manufacture certain products in the region. Net sales, pre-tax operating income and total assets of the Company's foreign and domestic operations are as follows:

	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands)		
Foreign operations:			
Net sales	\$ 169,147	\$ 165,424	\$ 190,763
Pre-tax income (loss)	1,135	1,173	(28,430)
Total assets	173,780	159,631	160,190
Domestic operations:			
Net sales	\$679,969	\$749,292	\$940,394
Pre-tax income (loss)	(30,844)	(9,339)	(27,842)
Total assets	814,356	851,832	977,129

10. Derivative Financial Instruments and Fair Value of Financial Instruments

Effective June 26, 2000, the Company began accounting for derivative contracts and hedging activities under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" which requires all derivatives to be recorded on the balance sheet at fair value. There was no cumulative effect adjustment of adopting this accounting standard. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

value of the hedged assets, liabilities, or firm commitments through earnings or are recorded in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The Company does not enter into derivative financial instruments for trading purposes nor is it a party to any leveraged financial instruments.

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

Currency forward contracts are used to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 60-80% of the sales value of these orders is covered by forward contracts. Maturity dates of the forward contracts are intended to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other income and expense. The Company also enters currency forward contracts for committed or anticipated equipment and inventory purchases. Generally 50-75% of the asset cost is covered by forward contracts although 100% of the asset cost may be covered by contracts in certain instances. Forward contracts are matched with the anticipated date of delivery of the assets, and gains and losses are recorded as a component of the asset cost for purchase transactions when the Company is firmly committed. For anticipated purchase transactions, gains or losses on hedge contracts are accumulated in Other Comprehensive Income (Loss) and periodically evaluated to assess hedge effectiveness. In fiscal year 2001, the Company recorded and subsequently wrote off approximately \$4.7 million of accumulated losses on hedge contracts associated with the anticipated purchase of machinery that was later canceled. The contracts entered into for anticipated purchase commitments were subsequently unwound by entering into sales contracts with identical remaining maturities and contract values. These purchase and sales contracts continued to be marked to market with offsetting gain and losses until they matured. The latest maturity for all outstanding purchase and sales foreign currency forward contracts are October 2003 and June 2004, respectively.

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

	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands)		
Foreign currency purchase contracts:			
Notional amount	\$ 2,926	\$ 3,011	\$ 14,400
Fair value	2,658	3,114	12,439
Net (gain) loss	\$ 268	\$ (103)	\$ 1,961
Foreign currency sales contracts:			
Notional amount	\$ 18,530	\$ 17,256	\$ 28,820
Fair value	17,945	16,769	29,369
Net (gain) loss	\$ (585)	\$ (487)	\$ 549

The total impact of foreign currency related items on the Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pre-tax gain of \$0.7 million for the fiscal year ended June 29, 2003, and pre-tax losses of \$0.3 million and \$9.5 million, for fiscal years ended June 30, 2002 and June 24, 2001, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company uses the following methods in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents, trade receivables and trade payables — The carrying amounts approximate fair value because of the short maturity of these instruments.

Long-term debt — The fair value of the Company's borrowings is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities (see Footnote 4 "Long-Term Debt and Other Liabilities").

Foreign currency contracts — The fair value is based on quotes obtained from brokers or reference to publicly available market information.

11. Investment in Unconsolidated Affiliates

On September 13, 2000, the Company and SANS Fibres of South Africa formed a 50/50 joint venture (UNIFI-SANS Technical Fibers, LLC or UNIFI-SANS) to produce low-shrinkage high tenacity nylon 6.6 light denier industrial (LDI) yarns in North Carolina. UNIFI-SANS incorporated the two-stage light denier industrial nylon yarn business of Solutia, Inc. (Solutia) which was purchased when the venture was formulated. Solutia exited the two-stage light denier industrial yarn business transitioning production from its Greenwood, SC site to the UNIFI-SANS Stoneville, North Carolina facility, a former Unifi manufacturing location. The UNIFI-SANS facility started initial production in January 2002 and was substantially on line by the end of September 2002. Unifi manages the day-to-day production and shipping of the LDI produced in North Carolina and SANS Fibres handles technical support and sales. Sales from this entity are primarily to customers in the NAFTA and CBI markets.

Through June 29, 2003 the joint venture has incurred substantial losses primarily as a result of start-up activities, difficulties in implementing manufacturing processes and technology and the quotation of lower than historical sales prices in an effort to secure new business in a difficult market. Efforts are underway to improve operating performance by focusing on improved manufacturing processes and technological performance.

As a result of the above, in the fiscal fourth quarter management of the joint venture determined that it was appropriate to evaluate the above circumstances and their effect on the tangible and intangible long lived assets employed by the joint venture in an effort to determine if the carrying value of such assets, approximating \$25.8 million as of June 29, 2003, may not be recoverable. During the June quarter, a test of the recoverability of its long lived assets was completed, and it was determined that the carrying value of such assets was recoverable through expected future cash flows. The joint venture will continue to be monitored for the recoverability of its long lived assets as business conditions change.

On September 27, 2000, Unifi and Nilit Ltd., located in Israel, formed a 50/50 joint venture named U.N.F. Industries Ltd. (U.N.F.). The joint venture produces approximately 20.0 million pounds of nylon POY at Nilit's manufacturing facility in Migdal Ha – Emek, Israel. Production and shipping of POY from this facility began in March 2001. The nylon POY is utilized in the Company's nylon texturing and covering operations.

In addition, the Company continues to maintain a 34% interest in Parkdale America, LLC (the "LLC") and a 16.1% interest in Micell Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed balance sheet and income statement information of the combined unconsolidated equity affiliates as of and for the fiscal years ended June 29, 2003, June 30, 2002, and June 24, 2001 are as follows:

	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands)		
Current assets	\$ 207,953	\$ 214,166	\$ 258,679
Noncurrent assets	179,826	212,501	216,760
Current liabilities	28,962	33,256	145,963
Shareholders' equity and capital accounts	294,946	313,862	294,411
Net sales	\$ 453,029	\$ 460,987	\$ 493,012
Gross profit	56,197	31,329	27,229
Income from operations	33,392	8,903	4,224
Net income (loss)	32,516	(1,508)	6,642

UNIFI-SANS and the LLC are organized as partnerships for U.S. tax purposes. Taxable income is passed through UNIFI-SANS and LLC to the members in accordance with the Operating Agreements of UNIFI-SANS and LLC. For the fiscal years ended June 29, 2003, June 30, 2002 and June 24, 2001, distributions received by the Company from the LLC amounted to \$19.1 million, \$0.9 million and \$51.9 million, respectively. Included in the above net sales amounts for the 2003 and 2002 fiscal years and for the approximate 12 week period ended June 24, 2001 are sales to Unifi of approximately \$30.8 million, \$29.5 million and \$12.5 million, respectively. These amounts represent sales of nylon POY from U.N.F. for use in the production of textured nylon yarn in the ordinary course of business.

12. Supplemental Cash Flow Information

Supplemental cash flow information is summarized below:

	Fiscal Years Ended		
	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands)		
Cash payments (receipts) for:			
Interest	\$ 17,543	\$ 23,462	\$ 28,362
Income taxes, net of refunds	(12,013)	(13,909)	1,392

13. Minority Interest

Effective May 29, 1998, the Company formed Unifi Textured Polyester, LLC (UTP) with Burlington Industries, Inc. ("Burlington") to manufacture and market natural textured polyester yarns. The Company has an 85.42% interest in UTP and Burlington has 14.58%. For the first five years, Burlington is entitled to the first \$9.4 million of annual net earnings and the first \$12.0 million of UTP's cash flows on an annual basis, less the amount of UTP net earnings. Subsequent to this five-year period, earnings and cash flows are to be allocated based on ownership percentages. UTP's assets, liabilities and earnings are consolidated with those of the Company and Burlington's interest in the UTP is included in the Company's financial statements as minority interest expense. Minority interest expense for Burlington's share of UTP in fiscal 2003, 2002 and 2001 were \$4.7 million, \$0 and \$3.0 million, respectively.

14. Fiscal Year 1999 Early Retirement and Termination Charge

During the third quarter of fiscal 1999, the Company recognized a \$14.8 million charge associated with the early retirement and termination of 114 salaried employees. The charge was recorded as a component of selling, general and administrative expenses in the amount of \$8.2 million and cost of goods sold in the amount of \$6.6 million. Substantially all employees were terminated effective March 31, 1999, with cash payments for

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

most severance being paid over the next three years. In the fourth quarter of fiscal 2001, an additional charge of \$1.6 million was recorded for the estimated increase in the present value of future health and dental costs associated with these terminated employees. For fiscal years 2003 and 2002, a similar charge was recorded in the amount of \$0.5 million and \$0.2 million, respectively. In addition, an adjustment was recorded in fiscal years 2003 and 2002 to replenish the reserve for the difference between the actual cash payments and the present value of the liability originally recorded, which represented interest expense. At June 29, 2003, a reserve of \$3.9 million remained on the Consolidated Balance Sheet that is expected to equal the present value of future cash payments for remaining severance and medical and dental expenses associated with these terminated employees. The table below summarizes the activity associated with this charge for fiscal years June 29, 2003, June 30, 2002 and June 24, 2001:

	June 29, 2003	June 30, 2002	June 24, 2001
	(Amounts in thousands)		
Balance at beginning of fiscal year	\$ 4,066	\$ 5,636	\$ 7,439
Change in estimate for original charges	528	187	1,659
Present value adjustment	373	386	—
Cash payments	(1,107)	(2,143)	(3,462)
Balance at end of fiscal year	\$ 3,860	\$ 4,066	\$ 5,636

15. Consolidation and Cost Reduction Efforts

In fiscal year 2001, the Company recorded charges of \$7.6 million for severance and employee related costs and \$24.5 million for asset impairments and write-downs. The majority of these charges related to U.S. and European operations and included plant closings and consolidations, the reorganization of administrative functions and the write down of assets for certain operations determined to be impaired as well as certain non-core businesses that are being held for sale. The plant closing and consolidations of the manufacturing and distribution systems were aimed at improving the overall efficiency and effectiveness of our operations and reducing our fixed cost structure in response to decreased sales volumes.

The severance and other employee related costs provide for the termination of approximately 750 people who were terminated as a result of these worldwide initiatives and included management, production workers and administrative support located in Ireland, England and in the United States. Notice of the termination was made to all employees prior to March 24, 2001 and substantially all affected personnel were terminated by the end of April 2001. Severance payments have been made in accordance with various plan terms, which varied from lump sum to a payout over a maximum of 21 months ending December 2002. Additionally, this charge included costs associated with changes in estimates for medical and dental benefits for former employees involved in the fiscal year 1999 early retirement and termination charge, discussed in Footnote 14 "Fiscal Year 1999 Early Retirement and Termination Charge," who are no longer providing services to the Company and provisions for certain consultant agreements for which no future benefit was anticipated.

The charge for impairment and other write down of assets includes \$18.6 million for the write down of duplicate or less efficient property, plant and equipment to their fair value less disposal cost and the write down of certain non-core assets which were held for sale. All of the non-core assets held for sale included in this charge were disposed of by January 2002. Additionally, an impairment charge of \$5.9 million was recorded for the write down to fair value of assets, primarily goodwill, associated with the European polyester dyed yarn operation and Colombian nylon covering operation as the undiscounted cash flows of the business were not sufficient to cover the carrying value of these assets. These reviews were prompted by ongoing excess manufacturing capacity issues. Run-out expenses related to the consolidation and closing of the affected operations, including equipment relocation and other costs associated with necessary ongoing plant maintenance expenses, were charged to operations as incurred and were substantially completed by the end of fiscal 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the second and fourth quarters of fiscal 2002, the Company recorded a \$0.6 million charge and a \$0.8 million charge, respectively, for severance costs associated with the further consolidation and reduction of selling, general and administrative expenses.

The table below summarizes the employee severance portion of the consolidation and cost reduction charge, the amounts paid and the accrued balance as of June 29, 2003 and June 30, 2002:

	June 29, 2003	June 30, 2002
	(Amounts in thousands)	
Balance at beginning of fiscal year	\$ 1,273	\$ 2,338
Additional charges	426	1,454
Cash payments	(911)	(2,519)
	\$ 788	\$ 1,273

Substantially all costs other than severance associated with the consolidation and cost reduction efforts were non-cash.

During the fourth quarter of fiscal year 2003, the Company recorded charges of \$16.9 million for severance and employee related costs that were associated with the U.S. and European operations. Approximately 450 U.S. employees were notified of the reorganization in April, and substantially all of the affected employees were terminated by the end of April. The European operation notified employees during April and May, and substantially all of the affected employees will be terminated by the end of September 2003. Severance payments are being made in accordance with various plan terms, which vary in time from a minimum of four weeks to a maximum of 24 months ending in April 2005.

The table below summarizes the employee severance charge, the amounts paid and the accrued balance as of June 29, 2003.

	June 29, 2003
	(Amounts in thousands)
Balance at beginning of fiscal year	\$ —
Original charges	16,893
Cash payments	(3,711)
	\$ 13,182

16. Alliance

Effective June 1, 2000, the Company and E.I. DuPont De Nemours and Company (DuPont) initiated a manufacturing alliance. The intent of the alliance is to optimize the Company's and DuPont's partially oriented yarn (POY) manufacturing facilities by increasing manufacturing efficiency and improving product quality. Under its terms, DuPont and the Company cooperatively run their polyester filament manufacturing facilities as a single operating unit. This consolidation involved the closing of the DuPont Cape Fear, North Carolina plant and transition of the commodity yarns from the Company's Yadkinville, North Carolina facility to DuPont's Kinston, North Carolina plant, and high-end specialty production from Kinston and Cape Fear to Yadkinville. The companies split equally the costs to complete the necessary plant consolidation and the benefits gained through asset optimization. Additionally, the companies collectively attempt to increase profitability through the development of new products and related technologies. Likewise, the costs incurred and benefits derived from the product innovations are split equally. DuPont and the Company continue to own and operate their respective sites and employees remained with their respective employers. DuPont continues to provide POY to the marketplace and the Company continues to provide textured yarn to the marketplace.

The Company recognized, as a reduction of cost of sales, cost savings and other benefits from the alliance of \$34.6 million and \$33.8 million for the fiscal years ended June 29, 2003 and June 30, 2002, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At termination of the Alliance or at any time after June 1, 2005, DuPont has the right but not the obligation to sell to Unifi (a "Put") and Unifi has the right but not the obligation to purchase from DuPont (a "Call"), DuPont's U.S. polyester filament business for a price based on a mutually agreed fair market value within a range of \$300.0 million to \$600.0 million. Dupont's right to put its U.S. polyester filament business to Unifi and Unifi's obligation to purchase such business are subject to certain conditions, including the ability of the Company to obtain a reasonable amount of financing on commercially reasonable terms. The Company believes that its ability to finance the purchase of Dupont's U.S. polyester filament business will be partially dependant upon the level of underlying cash flows generated by such business; such cash flow levels are not known by the Company at this time. In the event that the Company does not purchase the DuPont U.S. polyester filament business, DuPont would have the right but not the obligation to purchase the Company's domestic POY facility for a price based on a mutually agreed fair market value within a range of \$125.0 million to \$175.0 million. See Footnote 18 for additional information involving the Alliance.

17. Alliance Plant Closure Costs

In the fourth quarter of fiscal year 2001, the Company recorded its share of the anticipated costs of closing DuPont's Cape Fear, North Carolina facility. The charge totaled \$15.0 million and represents 50% of the severance and dismantlement cost of closing this plant. The Cape Fear plant produced polyester POY and was one of two DuPont facilities involved in the Alliance further discussed in Footnote 16 "Alliance." Now that the project is substantially complete the Company's actual share of the severance and dismantlement costs is currently estimated to be \$11.5 million. Accordingly, the Company has reflected a reduction of previously recorded amounts of \$3.5 million in the accompanying Consolidated Statements of Operations. The remaining obligation is included in accrued liabilities on the Consolidated Balance Sheets. The table below summarizes the activity associated with this charge for fiscal years June 29, 2003 and June 30, 2002:

	June 29, 2003	June 30, 2002
	(Amounts in thousands)	
Balance at beginning of fiscal year	\$ 6,632	\$ 15,000
Change in estimate for original charges	(3,486)	—
Cash payments	(2,890)	(8,368)
	\$ 256	\$ 6,632

18. Commitments and Contingencies

As further described in Footnote 16 "Alliance," effective June 1, 2000, the Company and DuPont initiated a manufacturing alliance. In accordance with the terms of the Alliance Agreements between the Company and DuPont, a provision of the Agreements provides for disputed matters to be arbitrated if they cannot otherwise be resolved. In February 2002, DuPont filed a Demand for and Notice of Arbitration and Unifi responded with an Answer and Counterclaim. DuPont's claims approximated \$85.0 million, injunctive relief and, absent a satisfactory cure by Unifi, a declaratory judgment that the Company was in "substantial breach" of the Alliance Agreements, which if allowed would permit DuPont to terminate the Alliance and exercise its right to sell ("Put") its U.S. polyester filament business to the Company for a purchase price within a range of \$300.0 million to \$600.0 million, as set forth in the Alliance Agreements. Of these damages, approximately \$71.0 million related to DuPont's contention that after creation of the Alliance, until and unless the Alliance assets are running at full capacity, Unifi should buy all of its external POY needs from DuPont, thus, taking business away from Unifi's other third party POY suppliers. Unifi does not agree that it was or is obligated to purchase these volumes of POY from DuPont. Had Unifi purchased these volumes of POY from Dupont, the Company believes that the prices it would have paid DuPont for such POY purchases would have been approximately at or below the prices it actually paid to its other third party POY suppliers. The remaining damages asserted by DuPont related to an alleged approximately \$8.0 million issue regarding capacity utilization in the Alliance manufacturing facilities and approximately \$6.0 million in interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Scheduled arbitration hearings concluded on January 23, 2003 and the Company received, in the March and June quarters of the 2003 fiscal year, orders from the Arbitration Panel stating that Unifi had not committed a "substantial breach" of the Alliance agreements, and consequently DuPont cannot terminate the Alliance or exercise its right to sell ("Put") its U.S. polyester filament business to the Company at this time. Additionally, the Arbitration Panel determined that DuPont did not breach its "obligations and undertakings" thereby resulting in no "material adverse effect", each as defined in the Alliance agreements, on the POY business. Accordingly, the terms of the Put exercisable by DuPont in June 2005 remain in effect, as described in the Alliance agreements.

Additionally, with respect to DuPont's previously disclosed claims for approximately \$85.0 million and Unifi's counterclaims, the Arbitration Panel ruled that the Company had violated certain provisions of the Alliance agreements and that DuPont had misinterpreted certain provisions of the Alliance agreements.

The Arbitration process concluded in June 2003 and, as a result, upon reviewing submissions from both companies, the Arbitration Panel awarded damages to Dupont, inclusive of interest, in the amount of approximately \$16.0 million. Such damages were paid by the Company to Dupont in June 2003. The Company has also included arbitration expenses, previously included in selling, general and administrative expenses, as part of its arbitration costs and expenses in its Consolidated Statements of Operations. Such expenses amounted to \$3.2 million and \$1.1 million for the fiscal years ended June 29, 2003 and June 30, 2002, respectively.

The Arbitration Panel also reaffirmed its decision to dismiss \$17.6 million of the aforementioned DuPont claim, as this claim was not properly brought before the Arbitration Panel. However, DuPont continues to pursue collection of this claim. The Company continues to deny these assertions.

19. Quarterly Results (Unaudited)

Quarterly financial data for the fiscal years ended June 29, 2003 and June 30, 2002 is presented below:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(13 Weeks)	(Amounts in thousands, except per share data) (13 Weeks)		(14 Weeks)
2002:				
Net sales	\$223,026	\$221,655	\$213,501	\$256,534
Gross profit	22,238	15,497	14,767	22,050
Income (loss) before cumulative effect of accounting change	2,666	(3,515)	(3,581)	(1,644)
Cumulative effect of accounting change	(37,851)	—	—	—
Net loss	(35,185)	(3,515)	(3,581)	(1,644)
Losses per share (diluted) before cumulative effect of accounting change	.05	(.07)	(.07)	(.03)
Net loss per share (diluted)	(.66)	(.07)	(.07)	(.03)
2003:				
	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)
Net sales	\$221,530	\$201,859	\$219,633	\$206,094
Gross profit	23,117	14,949	15,539	17,699
Net income (loss)	4,327	(2,170)	1,144	(30,478)
Earnings (losses) per share (basic)	.08	(.04)	.02	(.57)
Earnings (losses) per share (diluted)	.08	(.04)	.02	(.57)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company has not changed accountants nor are there any disagreements with its accountants, Ernst & Young LLP, on accounting and financial disclosure that should be reported pursuant to Item 304 of Regulation S-K.

Item 9a. Controls and Procedures

The Company maintains controls and procedures that are designed to ensure that information required to be disclosed in the Company's filed pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported in a timely manner, and that such information is accumulated and communicated to the Company's management, specifically including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 29, 2003.

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the Company's internal controls over financial reporting.

PART III

Item 10. *Directors and Executive Officers of Registrant and Compliance with Section 16(a) of The Exchange Act*

(a) Directors of Registrant: The information included under the headings "Election of Directors", "Nominees for Election as Directors", "Beneficial Ownership of Common Stock By Directors and Executive Officers", "Directors' Compensation", "Committees of the Board of Directors", and compliance with Section 16(a) of The Securities and Exchange Act, beginning on Page 3 and ending on Page 7 and on page 16 of the definitive proxy statement filed with the Commission since the close of the Registrant's fiscal year ended June 29, 2003, and within 120 days after the close of said fiscal year, are incorporated herein by reference.

(b) Identification of Executive Officers:

President and Chief Executive Officer

Brian R. Parke. Mr. Parke is 55 and had been the Manager or President of the Company's Irish subsidiary (Unifi Textured Yarns Europe Limited) from its acquisition by the Company in 1984 to January 20, 1999, when he was elected President and Chief Operating Officer of the Company. On January 26, 2000, Mr. Parke was elected Chief Executive Officer of the Company. Additionally, Mr. Parke has been a Vice President of the Company since October 21, 1993 and on July 22, 1999 was elected to the Company's Board of Directors.

Vice Presidents

Thomas H. Caudle. Mr. Caudle is 52 and has been an employee of the Company since 1982. On January 20, 1999, Mr. Caudle was elected as a Vice President of Manufacturing Services of the Company and on July 26, 2000 he was elected as a Senior Vice President in charge of Manufacturing for the Company. In April 2003, Mr. Caudle was elected Vice President of Global Operations.

Michael E. Delaney. Mr. Delaney is 47 and has been an employee of the Company since January 2000, when he joined the Company as Senior Vice President of Marketing. Prior to coming to the Company, Mr. Delaney was Vice President of Marketing with Volvo Truck N.A. from July 1997 through December 1999, Vice President of Marketing with GE Capital Transport International Pool from December 1995 through July 1997 and Vice President of TIP Intermodel Services from December 1993 through December 1995. In April 2003, Mr. Delaney was elected Vice President of Commercial Operations

Benny L. Holder. Mr. Holder is 41 has been an employee of the Company since January 1995. Prior to coming to the Company, Mr. Holder held various management positions in the Information Technology departments within Memorex Telex from 1990 until 1994 and at Revlon, Inc. from 1994 until 1995. Mr. Holder has held various management positions within the Information Technology area of the Company since joining, overseeing all of the Company's IT operations as Managing Director from June 1999 until January 2001 when he was appointed Vice President and Chief Information Officer.

Robert J. Kocourek. Mr. Kocourek is 50 and has been an employee of the Company since January 2001. Prior to coming to the Company, Mr. Kocourek was Executive Vice President of Finance & Administration of New Breed Corporation in High Point, North Carolina from March 1996 to September 2000. He joined the Company as Director of Financial Planning and Budgeting, was elected Treasurer in October 2002, and in April 2003 was elected Vice President and Chief Financial Officer. Mr. Kocourek has notified the Company of his intent to resign his position with the Company effective September 30, 2003.

Charles F. McCoy. Mr. McCoy is 39, has been an employee of the Company since January 2000, when he joined the Company as its Assistant Secretary and General Counsel. Prior to being employed by the Company, Mr. McCoy was an Associate Attorney with the law firm of Frazier, Frazier & Mahler, LLP from 1989 until 1993 and a Partner of the firm from 1994 until December 1999, which firm had served as General

Counsel for the Company since 1971. In October 2000, Mr. McCoy was elected as Vice President, Secretary and General Counsel of the Company and Corporate Compliance Officer in 2002.

Willis C. Moore, III. Mr. Moore is 50 and served with Ernst & Young LLP, or its predecessors from 1975 until December 1994, including eleven (11) years as a Partner. He joined the Company as its Chief Financial Officer in December 1994. Mr. Moore was elected as a Vice President of the Company on October 19, 1995, Senior Vice President on October 23, 1997 and Executive Vice President on July 26, 2000. In April 2003, Mr. Moore was elected Vice President of Governmental and Investor Relations.

Robert S. Smith, Jr. Mr. Smith is 35 and has been an employee of the Company since 1986. Mr. Smith has worked for the Company in Manufacturing, Industrial Engineering, Customer Service and Planning and has been involved in the Information Technology transitions. From there he has worked in the areas of Business Development, Human Resources, and Six Sigma. He served as Director of Sales and Service until April 2003, when he was elected Vice President of North American Operations.

Willie M. Wooldridge, Jr. Mr. Wooldridge is 54 and has been an employee of the Company since 2000. Prior to coming to the Company, Mr. Wooldridge's long history in Human Resources includes 10 years at RCA, 5 years at Nestle, and 3 years at PAI. He started his own consulting firm prior to joining Unifi. In 2000 he joined the Company as Manager of Professional Development, was then elected to Director of Human Resources in 2001 and was elected Vice President of Human Resources in April 2003.

These executive officers, unless otherwise noted, were elected by the Board of Directors of the Registrant at the Annual Meeting of the Board of Directors held on October 23, 2002. Each executive officer was elected to serve until the next Annual Meeting of the Board of Directors or until his successor was elected and qualified.

(d) Family Relationship: There are no family relationship between any of the Directors and Executive Officers of the Company.

Item 11. Executive Compensation

The information set forth under the headings "Compensation Committees Interlocks and Insider Participation in Compensation Decisions", "Insider Transactions", "Report of the Compensation Committee on Executive Compensation", "Executive Officers and their Compensation", "Option Grants in Fiscal Year 2003", "Option Exercises and Option/SAR Values", "Employment and Termination Agreements", and the "Performance Graph-Shareholder Return on Common Stock" beginning on Page 7 and ending on Page 15 of the Company's definitive proxy statement filed with the Commission since the close of the Registrant's fiscal year ended June 29, 2003, and within 120 days after the close of said fiscal year, are incorporated herein by reference.

For additional information regarding executive compensation reference is made to Exhibits (10i), (10j), (10k), (10o), (10p), (10q) and (10r) of this Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table summarizes the Company's equity compensation plans:

Plan category	(a)	(b)	(c)
	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	4,463,947	\$ 12.621	2,612,866
Equity compensation plans not approved by shareholders	—	—	—
Total	4,463,947	\$ 12.621	2,612,866

Under the terms of the 1999 Long-term Incentive Plan, the maximum number of shares to be issued was approved at 6,000,000. Of the 6,000,000 shares approved for issuance, no more than 3,000,000 can be issued as restricted stock. To date, 242,366 shares have been issued as restricted stock and are deemed to be outstanding. Any options or restricted stock that is forfeited can be reissued under terms of the plan. The amount forfeited is included in the number of securities remaining available for future issuance in column (c) in the above table.

Security ownership of certain beneficial owners and management is the same as reported under the heading "Information Relating to Principal Security Holders" on Page 2 of the definitive proxy statement and under the heading "Beneficial Ownership of Common Stock By Directors and Executive Officers" on Pages 5 and 6 of the definitive proxy statement filed with the Commission pursuant to Regulation 14 (a) within 120 days after the close of the fiscal year ended June 29, 2003, which are hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions

The information included under the heading "Compensation Committees Interlocks and Insider Participation In Compensation Decisions", on Page 7 of the definitive proxy statement filed with the Commission since the close of the Registrant's fiscal year ended June 29, 2003, and within 120 days after the close of said fiscal year, is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Not required.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements

The following financial statements and report of independent auditors are filed as a part of this Report.

	Pages
Report of Independent Auditors	27
Consolidated Balance Sheets at June 29, 2003 and June 30, 2002	28
Consolidated Statements of Operations for the Years Ended June 29, 2003, June 30, 2002, and June 24, 2001	29
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss) for the Years Ended June 29, 2003, June 30, 2002, and June 24, 2001	30
Consolidated Statements of Cash Flows for the Years Ended June 29, 2003, June 30, 2002, and June 24, 2001	31
Notes to Consolidated Financial Statements	32
2. Financial Statement Schedules	
II — Valuation and Qualifying Accounts	63
Parkdale America, LLC Financial Statements as of December 28, 2002 and for the year then ended	64

Schedules other than those above are omitted because they are not required, are not applicable, or the required information is given in the consolidated financial statements or notes thereto.

Individual financial statements of the Registrant have been omitted because it is primarily an operating company and all subsidiaries included in the consolidated financial statements being filed, in the aggregate, do not have minority equity interest and/or indebtedness to any person other than the Registrant or its consolidated subsidiaries in amounts which together exceed 5% of the total assets as shown by the most recent year end consolidated balance sheet.

With the exception of the information herein expressly incorporated by reference, the 2003 Proxy Statement is not deemed filed as a part of this Annual Report on Form 10-K.

3. Exhibits

Exhibit No.	Description
(2a-1)	— Contribution Agreement, dated June 30, 1997, by and between Parkdale Mills, Inc., Unifi, Inc., UNIFI Manufacturing, Inc., and Parkdale America, LLC, filed as Exhibit (2) to Unifi's Form 8-K filed with the Commission on July 15, 1997, which is incorporated herein by reference.
(3a)	— Restated Certificate of Incorporation of Unifi, Inc., dated July 21, 1994, (filed as Exhibit 3(a) with the Company's Form 10-K for the fiscal year ended June 25, 2000), which is incorporated herein by reference.
(3b)	— Certificate of Amendment of the Certificate of Incorporation of Unifi, Inc., dated January 6, 2003, filed herewith.
(3c)	— Restated by-laws of Unifi, Inc., effective October 23, 2002, filed herewith.
(4a)	— Specimen Certificate of Unifi, Inc.'s common stock, filed as Exhibit 4(a) to the Registration Statement on Form S-1, (Registration No. 2-45405), which is incorporated herein by reference.
(4b)	— Unifi, Inc.'s Registration Statement for the 6 1/2% Notes due 2008, Series B, filed on Form S-4 (Registration No. 333-49243), which is incorporated herein by reference.

Exhibit No.	Description
(4c)	— Description of Unifi, Inc.'s common stock, filed on November 5, 1998, as Item 5. (Other Events) on Form 8-K, which is incorporated herein by reference.
(10a)	— *Unifi, Inc. 1992 Incentive Stock Option Plan, effective July 16, 1992, (filed as Exhibit 10(c) with the Company's Form 10-K for the fiscal year ended June 27, 1993), and included as Exhibit 99.2 to the Registration Statement on Form S-8 (Registration No. 33-53799), which are incorporated herein by reference.
(10b)	— *Unifi, Inc.'s Registration Statement for selling Shareholders, who are Directors and Officers of the Company, who acquired the shares as stock bonuses from the Company, filed on Form S-3 (Registration No. 33-23201), which is incorporated herein by reference.
(10c)	— *Unifi, Inc.'s 1996 Incentive Stock Option Plan (filed as Exhibit 10(f) with the Company's Form 10-K for the fiscal year ended June 30, 1996) which is incorporated herein by reference.
(10d)	— *Unifi, Inc.'s 1996 Non-Qualified Stock Option Plan (filed as Exhibit 10(g) with the Company's Form 10-K for the fiscal year ended June 30, 1996) which is incorporated herein by reference.
(10e)	— Credit Agreement dated as of December 7, 2001, by and among the Financial Institutions Named Therein as the Lenders, and Bank of America, N.A. as the Agent, and Unifi, Inc. and certain of its Domestic Subsidiaries as the Borrowers (the "Credit Agreement") Agreement (filed as Exhibit 10(e) with the Company's Form 10-K for the fiscal year ended June 30, 2002).
(10f)	— Security Agreement dated as of December 7, 2001, between Unifi, Inc. and certain of its Domestic Subsidiaries and Bank of America, N.A., in its capacity as Agent for Lenders under the Credit Agreement (filed as Exhibit 10(f) with the Company's Form 10-K for the fiscal year ended June 30, 2002).
(10g)	— Reallocation Amendment and Assignment dated as of January 1, 2003, between Unifi, Inc. and certain of its Domestic Subsidiaries, the Existing Lenders, the Remaining Lenders and Bank of America, N.A., as Agent for the Lenders, filed herewith.
(10h)	— Second Amendment dated as of August 6, 2003, between Unifi, Inc. and certain of its Domestic Subsidiaries, the Lenders, and Bank of America, N.A., as Agent for the Lenders, filed herewith.
(10i)	— *Employment Agreement between Unifi, Inc. and Brian R. Parke, dated January 23, 2002 (filed as Exhibit 10(g) with the Company's Form 10-K for the fiscal year ended June 30, 2002).
(10j)	— *Change of Control Agreement between Unifi, Inc. and G. Alfred Webster, dated October 26, 2000, expiring November 1, 2005 (filed as Exhibit (10l) with the Company's Form 10-K for the fiscal year ended June 24, 2001), which is incorporated herein by reference.
(10k)	— *Change of Control Agreement between Unifi, Inc. and Willis C. Moore, III, dated January 23, 2002, expiring November 1, 2005, filed as Exhibit 10(i) with the Company's Form 10-K for the fiscal year ended June 30, 2002, which is incorporated herein by reference (similar agreements were signed by Thomas H. Caudle, Jr., Michael E. Delaney, O. Lee Gordon, Benny L. Holder, Stewart Q. Little, and Charles F. McCoy).
(10l)	— *Agreement, effective February 1, 1999, by and between Unifi, Inc. and Jerry W. Eller, (filed as Exhibit 10(s) with the Company's Form 10-K for the fiscal year ended June 27, 1999).
(10m)	— *1999 Unifi, Inc. Long-Term Incentive Plan, (filed as Exhibit 99.1 to the Registration Statement on Form S-8, (Registration No. 333-48158), which is incorporated herein by reference.

Exhibit No.	Description
(10n)	— Master Agreement POY Manufacturing Alliance between Unifi, Inc. and E.I. du Pont de Nemours and Company, dated June 1, 2000 (filed as Exhibit 10(o) with the Company's Form 10-K for the fiscal year ended June 25, 2000) which is incorporated herein by reference.
(10o)	— *Employment Offer Letter from Unifi, Inc. to Michael E. Delaney dated December 8, 1999, filed herewith.
(10p)	— *Severance Agreement effective April 30, 2003, by and between Unifi, Inc. and G. Alfred Webster, filed herewith.
(10q)	— *Severance Agreement effective April 30, 2003, by and between Unifi, Inc. and Stewart Q. Little, filed herewith.
(10r)	— *Severance Agreement effective April 30, 2003, by and between Unifi, Inc. and Ottis "Lee" Gordon, filed herewith.
(21)	— Subsidiaries of Unifi, Inc.
(23a)	— Consent of Ernst & Young LLP.
(23b)	— Consent of PricewaterhouseCoopers, LLP.
(31a)	— Chief Executive Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
(31b)	— Chief Financial Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
(32a)	— Chief Executive Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
(32b)	— Chief Financial Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

* NOTE: These Exhibits are management contracts or compensatory plans or arrangements required to be filed as an exhibit to this Form 10-K pursuant to Item 15(c) of this report.

(b) Reports on Form 8-K

The Company filed the following three Form 8-K reports during the fourth quarter.

1. The report filed on April 17, 2003 disclosed that the Company was restructuring its domestic operations resulting in the elimination of approximately 400 domestic positions and that the Company expected to take a charge of approximately \$11.0 million.
2. The report filed on April 25, 2003 stated that the Board of Directors reinstated the Company's previously authorized stock repurchase plan, Mr. Robert J. Kocourek was elected as the Company's Vice President & Chief Financial Officer, and the Company's Irish subsidiary announced it would be restructuring its operations and eliminating approximately 250 hourly and staff positions that would require the subsidiary to take a charge in the fourth quarter of fiscal 2003. The report also included, as an exhibit, the Company's third quarter results of operation and financial condition.
3. The report filed on June 17, 2003 stated that the Company received an arbitration ruling in its arbitration proceedings with E. I. DuPont De Nemours & Co.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and 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.

September 22, 2003

By: /s/ BRIAN R. PARKE

 Brian R. Parke
President
(Chief Executive Officer)

September 22, 2003

By: /s/ ROBERT J. KOCOUREK

 Robert J. Kocourek
Vice President
(Chief Financial Officer)

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<p style="text-align: center;">/s/ BRIAN R. PARKE</p> <hr style="border: 0.5px solid black;"/> <p style="text-align: center;">Brian R. Parke</p>	<p style="text-align: center;">President, Chief Executive Officer and Director</p>	<p style="text-align: center;">September 22, 2003</p>
<p style="text-align: center;">/s/ ALFRED WEBSTER</p> <hr style="border: 0.5px solid black;"/> <p style="text-align: center;">Alfred Webster</p>	<p style="text-align: center;">Director</p>	<p style="text-align: center;">September 22, 2003</p>
<p style="text-align: center;">/s/ WILLIAM J. ARMFIELD, IV</p> <hr style="border: 0.5px solid black;"/> <p style="text-align: center;">William J. Armfield, IV</p>	<p style="text-align: center;">Director</p>	<p style="text-align: center;">September 22, 2003</p>
<p style="text-align: center;">/s/ R. WILEY BOURNE, JR.</p> <hr style="border: 0.5px solid black;"/> <p style="text-align: center;">R. Wiley Bourne, Jr.</p>	<p style="text-align: center;">Director</p>	<p style="text-align: center;">September 22, 2003</p>
<p style="text-align: center;">/s/ CHARLES R. CARTER</p> <hr style="border: 0.5px solid black;"/> <p style="text-align: center;">Charles R. Carter</p>	<p style="text-align: center;">Director</p>	<p style="text-align: center;">September 22, 2003</p>
<p style="text-align: center;">/s/ SUE W. COLE</p> <hr style="border: 0.5px solid black;"/> <p style="text-align: center;">Sue W. Cole</p>	<p style="text-align: center;">Director</p>	<p style="text-align: center;">September 22, 2003</p>
<p style="text-align: center;">/s/ J.B. DAVIS</p> <hr style="border: 0.5px solid black;"/> <p style="text-align: center;">J.B. Davis</p>	<p style="text-align: center;">Director</p>	<p style="text-align: center;">September 22, 2003</p>
<p style="text-align: center;">Kenneth G. Langone</p>	<p style="text-align: center;">Director</p>	<p style="text-align: center;">September **, 2003</p>
<p style="text-align: center;">/s/ DONALD F. ORR</p> <hr style="border: 0.5px solid black;"/> <p style="text-align: center;">Donald F. Orr</p>	<p style="text-align: center;">Director</p>	<p style="text-align: center;">September 22, 2003</p>

(27)

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Additions		Deductions — Describe(c)	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts — Describe(b)		
Allowance for uncollectible accounts(a):					
Year ended June 29, 2003	\$ 10,652	4,023	(1,779)	(628)	\$12,268
Year ended June 30, 2002	9,889	12,123	(689)	(10,671)	10,652
Year ended June 24, 2001	17,209	14,985	47	(22,352)	9,889
Valuation allowance for deferred tax assets:					
Year ended June 29, 2003	\$ 7,800	2,700	—	—	\$ 10,500
Year ended June 30, 2002	7,800	—	—	—	7,800
Year ended June 24, 2001	7,800	—	—	—	7,800

Footnote (pertaining to the Allowance for uncollectible accounts)

- (a) The allowance for doubtful accounts includes amounts estimated not to be collectible for product quality claims, specific customer credit issues and a general provision for bad debts.
- (b) Includes acquisition related adjustments and/or effects of currency translation from restating activity of our foreign affiliates from their respective local currencies to the U.S. dollar.
- (c) Includes accounts written off which were deemed not to be collectible and customer claims paid, net of certain recoveries.

PARKDALE AMERICA, LLC AND SUBSIDIARY

Consolidated Financial Statements

December 28, 2002 and December 29, 2001

PARKDALE AMERICA, LLC AND SUBSIDIARY

Index to Consolidated Financial Statements

December 28, 2002 and December 29, 2001

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REPORT OF INDEPENDENT AUDITORS

To the Board of Members of

Parkdale America, LLC and Subsidiary

In our opinion the consolidated balance sheet as of December 28, 2002, and the related consolidated statements of income, members' equity and cash flows present fairly in all material respects, the financial position of Parkdale America, LLC and subsidiary (the "Company") at December 28, 2002 and the results of their operations and their cash flows for the year ended December 28, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying balance sheet of the Company as of December 29, 2001 and the related consolidated statements of income, members' equity and cash flows for the years ended December 29, 2001 and December 30, 2000, were not audited by us and, accordingly, we do not express an opinion on them.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina

February 27, 2003

PARKDALE AMERICA, LLC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 28, 2002 and December 29, 2001

	2002	2001
		(Unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 99,973,000	\$ 47,732,000
Accounts receivable, less allowances of \$4,399,000 and \$5,500,000, respectively	50,176,000	45,927,000
Inventories, net	42,793,000	65,229,000
Prepaid expenses	1,460,000	120,000
Notes receivable	84,000	796,000
Due from affiliates, net	686,000	1,593,000
	<hr/>	<hr/>
Total current assets	195,172,000	161,397,000
Property, plant and equipment, net	136,045,000	167,161,000
Investment in affiliate	8,148,000	9,030,000
Intangible assets, net	2,516,000	3,109,000
Derivative instruments, net	1,734,000	—
Notes receivable from affiliate	5,227,000	5,227,000
Deferred financing costs	918,000	1,263,000
	<hr/>	<hr/>
	\$349,760,000	\$347,187,000
	<hr/>	<hr/>
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Trade accounts payable	\$ 10,320,000	\$ 11,177,000
Accrued insurance	1,112,000	961,000
Accrued utilities	926,000	1,003,000
Other accrued expenses	5,319,000	3,424,000
Current portion of capital lease obligations	1,426,000	947,000
	<hr/>	<hr/>
Total current liabilities	19,103,000	17,512,000
Capital lease obligations	18,592,000	20,018,000
Long-term debt	40,000,000	40,000,000
Deferred revenue	75,000	—
Derivative instruments, net	—	1,488,000
	<hr/>	<hr/>
Total liabilities	77,770,000	79,018,000
Commitments and contingencies	—	—
Members' equity	271,990,000	268,169,000
	<hr/>	<hr/>
	\$349,760,000	\$347,187,000
	<hr/>	<hr/>

The accompanying notes are an integral part of these consolidated financial statements.

PARKDALE AMERICA, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 28, 2002, December 29, 2001 and December 30, 2000

	2002	2001	2000
		(Unaudited)	(Unaudited)
Net sales (sales to related parties \$9,921,000, \$109,265,000 and \$18,544,000, respectively)	\$ 423,515,000	\$ 449,175,000	\$ 487,020,000
Cost of goods sold	(375,285,000)	(421,399,000)	(447,950,000)
Gross margin	48,230,000	27,776,000	39,070,000
General and administrative expenses	(18,677,000)	(16,682,000)	(14,952,000)
Income from operations	29,553,000	11,094,000	24,118,000
Interest expense	(4,470,000)	(5,340,000)	(2,379,000)
Interest income	1,855,000	2,265,000	7,617,000
Gain (loss) on derivative instruments	4,824,000	(1,488,000)	—
Equity in losses of unconsolidated investee	(882,000)	2,234,000	800,000
Other income (expense), net	468,000	(1,918,000)	(394,000)
Net income	\$ 31,348,000	\$ 6,847,000	\$ 29,762,000

The accompanying notes are an integral part of these consolidated financial statements.

PARKDALE AMERICA, LLC AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

Years Ended December 28, 2002, December 29, 2001 and December 30, 2000

Balances, January 1, 2000 (unaudited)	\$ 391,017,000
Adjustment for the cumulative effect on prior years of LIFO termination	(2,666,000)
Adjusted net income for the year ended December 30, 2000	29,762,000
Adjustment to excess consideration over fair value of assets acquired on Air Jet Acquisition	9,131,000
Adjustment to prior years' identifiable costs	(3,898,000)
Dividends paid	(10,555,000)
	412,791,000
Balances, December 30, 2000 (unaudited)	412,791,000
Net income	6,847,000
Dividends paid	(151,469,000)
	268,169,000
Balances, December 29, 2001 (unaudited)	268,169,000
Net income	31,348,000
Dividends paid	(27,527,000)
	271,990,000
Balances, December 28, 2002	\$ 271,990,000

The accompanying notes are an integral part of these consolidated financial statements.

PARKDALE AMERICA, LLC AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 28, 2002, December 29, 2001 and December 30, 2000

	2002	2001	2000
		(Unaudited)	(Unaudited)
Cash flows from operating activities			
Net income	\$ 31,348,000	\$ 6,847,000	\$ 29,762,000
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	35,884,000	43,586,000	48,971,000
Loss on disposals of property, plant and equipment	201,000	111,000	1,042,000
(Gain) loss on derivative instruments	(3,222,000)	1,488,000	—
Provision for bad debts	1,024,000	161,000	2,749,000
Equity in loss of unconsolidated investee	882,000	(2,234,000)	(800,000)
Changes in operating assets and liabilities			
Accounts receivable	(5,273,000)	17,500,000	(10,659,000)
Notes receivable	712,000	(772,000)	(24,000)
Due to/from affiliates, net	1,092,000	30,711,000	40,096,000
Inventories, net	22,436,000	76,537,000	(60,152,000)
Prepaid expenses	(1,340,000)	831,000	(576,000)
Trade accounts payable	(857,000)	(9,824,000)	10,696,000
Accrued expenses	1,969,000	498,000	1,426,000
Deferred revenue	75,000	—	—
Net cash provided by operating activities	<u>84,931,000</u>	<u>165,440,000</u>	<u>62,531,000</u>
Cash flows from investing activities			
Purchases of property, plant and equipment	(5,562,000)	(4,968,000)	(29,183,000)
Proceeds from disposals of property, plant and equipment	1,408,000	638,000	160,000
Net cash used in investing activities	<u>(4,154,000)</u>	<u>(4,330,000)</u>	<u>(29,023,000)</u>
Cash flows from financing activities			
Proceeds from long-term debt	—	40,000,000	—
Proceeds from lines of credit	—	113,000,000	19,000,000
Repayment of lines of credit	—	(118,000,000)	(34,000,000)
Dividends paid	(27,527,000)	(151,469,000)	(10,555,000)
Increase in deferred financing costs	(62,000)	(1,325,000)	—
Capital lease payments	(947,000)	(887,000)	(827,000)
Net cash used in financing activities	<u>(28,536,000)</u>	<u>(118,681,000)</u>	<u>(26,382,000)</u>
Increase in cash and cash equivalents	52,241,000	42,429,000	7,126,000
Cash and cash equivalents, beginning of year	47,732,000	5,303,000	44,000
Cash and cash equivalents, end of year	<u>\$ 99,973,000</u>	<u>\$ 47,732,000</u>	<u>\$ 7,170,000</u>
Supplemental disclosure of cash flow information —			
Cash paid during the year for interest	<u>\$ 4,529,800</u>	<u>\$ 4,925,000</u>	<u>\$ 2,406,000</u>

The accompanying notes are an integral part of these consolidated financial statements.

PARKDALE AMERICA, LLC AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

December 28, 2002 and December 29, 2001

1. Significant Accounting Policies

Organization

On June 30, 1997, Parkdale Mills, Inc. (Parkdale) and Unifi, Inc. (Unifi) entered into a Contribution Agreement (the 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 (the Company). In exchange for their respective contributions, Parkdale received a 66% ownership interest and Unifi received a 34% ownership interest in the Company.

In August 2000, the Company formed a wholly owned subsidiary, Yarns, LLC, an internet-based company. All significant intercompany transactions and accounts have been eliminated in consolidation. During 2002, amounts related to Yarns, LLC were written off.

Effective January 15, 2002, Parkdale transferred its ownership in Summit Yarn Joint Venture ("Summit") to the Company. Summit is a joint venture with Burlington Industries, Inc., whereby each company agreed to contribute certain assets and cash for the purpose of constructing, operating and managing a yarn manufacturing facility located in Mexico. The investment was transferred at Parkdale's historical basis of \$14,257,000, which includes notes receivable totalling \$5,227,000. The accompanying consolidated financial statements of the Company give effect to the transfer as if it had been consummated as of the beginning of the periods presented.

Operations

The Company is a producer of cotton and synthetic yarns for sale to the textile and apparel industries primarily within North America. The Company has 16 manufacturing facilities primarily located in central and western North Carolina.

Fiscal Year

The Company's fiscal year ends the Saturday nearest to December 31. The Company's fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000 each had 52 weeks.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when goods are shipped and title is transferred to the customer.

Cash Equivalents

The Company considers all highly-liquid investments with a maturity of three months or less to be cash equivalents.

PARKDALE AMERICA, LLC AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Concentration of Credit Risk

Substantially all of the Company's accounts receivable are due from companies in the textile and apparel markets located primarily throughout North America. In addition, the Company maintains factoring arrangements with a financial institution (see Note 2). The Company generally does not require collateral for its accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Sales to one customer accounted for approximately 10%, 12% and 12% of total sales in 2002, 2001 and 2000, respectively, under a long-term contract with the Company.

Property, Plant and Equipment

Assets contributed from Parkdale were transferred to the Company at Parkdale's historical net book value. Assets contributed from Unifi were recorded at fair value which management has represented approximated net book value at June 30, 1997. All subsequent additions to property, plant and equipment are recorded at cost. Provisions for repairs and maintenance, which do not extend the life of the applicable assets, are expensed. Provisions for depreciation are determined principally by an accelerated method over the estimated useful lives of the assets. The following is a summary:

	Useful Lives	2002	2001
			(Unaudited)
Land and land improvements	15 years	\$ 4,630,000	\$ 4,630,000
Buildings	15 - 39 years	104,806,000	103,166,000
Machinery and equipment	5 - 9 years	474,743,000	489,902,000
Office furniture and fixtures	5 - 7 years	8,230,000	7,806,000
Construction-in-progress		465,000	844,000
Assets held for sale		1,385,000	1,595,000
		594,259,000	607,943,000
Less accumulated depreciation		(458,214,000)	(440,782,000)
Property, plant and equipment, net		\$ 136,045,000	\$ 167,161,000

Impairment of Long-Lived Assets

On December 30, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires the Company to determine whether such assets are impaired when events or changes in circumstances indicate the carrying value of the assets may not be recoverable. Management reviews long-lived assets for impairment based on estimated future undiscounted cash flows attributable to the assets. In the event such cash flows are not expected to be sufficient to recover the carrying value of the assets, the assets are written down to their estimated fair values. The Company performed a comprehensive review of long-lived assets as of the end of December 28, 2002. Based on this review, there were no events or changes in circumstances indicating the carrying value of our long-lived assets may not be recoverable.

Cotton Rebate Program

The Company receives a rebate from the U.S. Government for consuming cotton grown in the United States. The rebate is based on the pounds of cotton consumed and the difference between U.S. and foreign cotton prices. Rebate income, included as a reduction to cost of goods sold in the accompanying consolidated statements of income amounted to \$6,872,000, \$10,065,000 and \$20,943,000 for the years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively. The receivable associated with this

PARKDALE AMERICA, LLC AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS — (Continued)

rebate amounted to \$1,344,000 and \$1,025,000 as of December 28, 2002 and December 29, 2001, respectively, and was included in accounts receivable in the accompanying consolidated balance sheets.

Deferred Financing Costs

Deferred financing costs relate to debt agreements entered into on October 31, 2001 (see Note 5). Financing costs consist primarily of commitment fees, legal fees and other direct costs incurred to obtain debt financing. These costs are amortized over the applicable terms of the debt agreements.

Intangible Assets

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (SFAS 142). SFAS 142, which the Company adopted December 30, 2001, requires that indefinite lived assets be reviewed for impairment upon adoption and annually thereafter, unless specific circumstances indicate that a more timely review is warranted. Intangible assets subject to amortization consisted primarily of customer lists acquired and are being amortized over the terms of the agreements, principally five years. Upon adoption of SFAS 142, the Company was required to reassess the useful lives and residual values of all acquired intangible assets and make any necessary amortization period adjustments. The Company performed this analysis and, based on that assessment, no adjustments were required to be made to the amortization periods or to residual values of the Company's existing intangible assets. These intangible assets will continue to be amortized over their remaining useful lives and reviewed for impairment annually or more often if necessary.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

Unaudited Financial Statements

The unaudited financial statements as of December 29, 2001 (unaudited) and for the years ended December 29, 2001 (unaudited) and December 30, 2000 (unaudited) have been prepared pursuant to generally accepted accounting principles and include all adjustments which are, in the opinion of management, necessary for a fair presentation of the result for the periods presented.

2. Factoring Arrangements

The Company has entered into factoring arrangements whereby certain of its receivables are sold on a preapproved, nonrecourse basis except in the event of dispute or claim as to price, terms, quality, material workmanship, quantity or delivery of merchandise. Pursuant to the terms of the arrangements, receivables are sold, net of factoring fees and commissions and net of any credits or discounts available to the Company's customers. Approximately 12% and 29% of accounts receivable were factored at December 28, 2002 and December 30, 2001, respectively. The Company had no advances from the factors outstanding at December 28, 2002 and December 29, 2001.

3. Inventories

Inventories are stated at lower of cost or market. Cost is determined using the specific identification method for raw material inventories and the moving-average method for yarn-in-process and finished yarn inventories. The Company performs periodic assessments to determine the existence of obsolete, slow-moving

PARKDALE AMERICA, LLC AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS — (Continued)

and nonsaleable inventories and records necessary provisions to reduce such inventories to net realizable value. Inventories consist of the following as of December 28, 2002 and December 29, 2001:

	2002	2001
		(Unaudited)
Cotton and synthetics	\$ 24,260,000	\$ 41,238,000
Yarn-in-process	3,650,000	4,254,000
Finished yarn	13,806,000	19,046,000
Supplies	1,077,000	691,000
	\$ 42,793,000	\$ 65,229,000

On December 31, 2000, the Company changed its method of determining the cost of inventories from the last-in, first-out method to the specific identification and moving-average methods. Under the current economic environment of low inflation, the Company believes that these methods will result in better measurement of operating results and better matching of costs with product sales. The financial statements for the year ended December 30, 2000, have been retroactively adjusted for this change, which increased previously reported fiscal 2000 net income by \$9,088,000 and decreased the beginning fiscal 2000 balance of retained earnings by \$2,666,000.

4. Income Taxes

The Company is a Limited Liability Company treated as a partnership for federal and state income tax reporting purposes. As a result, the Company's results of operations are included in the income tax returns of its individual members. Accordingly, the financial statements do not include a provision for income taxes.

5. Debt

On October 31, 2001, the Company authorized the issue and sale of \$40,000,000 Senior Secured Notes (the Notes) due October 31, 2008, at a fixed interest rate of 6.82% to four insurance and finance companies. Interest payments are due on a semi-annual basis, beginning April 30, 2002. Beginning October 31, 2004, the Company is required to pay principal amounts of \$8,000,000 annually until the maturity date for the Notes. The Note Purchase Agreement contains certain penalties for prepayment of the Notes. The carrying value of the Notes approximates their fair value as of December 28, 2002.

The future maturities of the Notes are as follows:

2003	\$ —
2004	8,000,000
2005	8,000,000
2006	8,000,000
2007	8,000,000
2008	8,000,000
	\$ 40,000,000

Lines of Credit

In connection with the issuance of the Notes on October 31, 2001, the Company entered into an agreement for a line of credit with a group of banks, which provides for borrowings up to \$90,000,000. Borrowings under this agreement bear interest at either the prime rate plus an applicable margin or a LIBOR rate plus an applicable margin, as chosen by the Company. The termination date of this agreement is

PARKDALE AMERICA, LLC AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS — (Continued)

October 31, 2004. At December 28, 2002 and December 29, 2001, there were no amounts outstanding under this agreement.

Loan Covenants

The Company's debt agreements contain restrictive covenants which, among other things, require the maintenance of minimum levels of cash flow coverage and net worth, restrict certain payments of dividends and limit unsecured borrowings. At December 28, 2002, the Company was in compliance with all financial covenants.

6. Derivative Instruments

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by Statements 137 and 138 in June 1999 and June 2000, respectively. SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the income statement, to the extent effective, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. During fiscal 2001, the Company adopted SFAS No. 133. The Company uses interest rate swap agreements to manage the risk that changes in interest rates will affect the amount of future interest payments. The differential paid or received under these agreements is recognized as an adjustment to interest expense. These agreements are required to be recognized at their fair value in the accompanying consolidated balance sheet.

As of December 28, 2002 and December 29, 2001, the Company was a party to the following interest rate swap agreements with a bank:

Notional amount	\$30,000,000	\$40,000,000
Payment rate	5% fixed	one-month LIBOR
Receipt rate	one-month LIBOR	4.24%
Inception date	3/7/01	11/21/01
Expiration date	3/12/04	10/12/08
Estimated fair value as of December 29, 2001	\$(1,106,000)	\$(382,000)
Estimated fair value as of December 28, 2002	(1,339,000)	1,722,000

The estimated fair values of the agreements are the estimated amount that the Company would pay or receive to terminate these agreements at the reporting date, taking into account current interest rates. The estimated fair values do not necessarily reflect the potential income or loss that would be realized on an actual settlement of the agreements. The Company did not apply hedge accounting treatment and has recorded the unrealized gains and losses in the statements of income.

In addition, the Company enters into forward contracts for cotton purchases, which qualify as derivative instruments under SFAS No. 133. However, these contracts meet the applicable criteria to qualify for the "normal purchases or normal sales" exemption. Therefore, the provisions of SFAS No. 133 are not applicable to these contracts.

Also, the Company entered into future contracts for cotton purchases, which qualify as derivative instruments under SFAS No. 133. These contracts are used to economically hedge against rising cotton prices. The Company does not apply hedge accounting for these contracts and records these instruments at their fair value of \$1,350,000 in the accompanying consolidated balance sheet as of December 28, 2002. At

PARKDALE AMERICA, LLC AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS — (Continued)

December 28, 2002, all realized and unrealized gains and losses, resulting from this trading activity, are reflected in the accompanying consolidated statements of income as a component of gain (loss) on derivative instruments.

7. Defined Contribution Plan

The Company maintains a defined contribution retirement plan available to substantially all employees. The Company's contributions are based on a formula for matching employee contributions. The Company recognized expense for this plan of \$572,000, \$634,000 and \$510,000 during the years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively.

8. Related Party Transactions

Cotton Purchases and Commitments

On September 29, 2001, the Company segregated its raw material cotton inventory from the raw material cotton inventory of Parkdale. During fiscal 2002 and 2001, the Company sold cotton at cost to Parkdale amounting to \$4,558,000, and \$45,527,000, respectively. During fiscal 2002, Parkdale sold cotton at cost to the Company amounting to \$10,156,000. Parkdale did not sell cotton to the Company during 2001 and 2000.

On September 30, 2000, Parkdale transferred its raw material cotton inventory at cost with a value of \$46,344,000 to the Company. From October 1, 2000, to December 30, 2000, the Company sold cotton at cost to Parkdale amounting to \$16,003,000. The Company purchased cotton from Parkdale at cost amounting to \$210,044,000 for the period from January 2, 2000, through September 29, 2000.

During fiscal 2002, 2001 and 2000, the Company sold cotton at cost to Magnolia Manufacturing Company (Magnolia), a related company owned by certain of Parkdale's stockholders, amounting to \$5,363,000, \$63,738,000 and \$18,944,000, respectively.

The cost of cotton transferred between the Company, Parkdale and Magnolia is determined on a specific identification basis for each cotton bale sold or purchased.

The Company purchased cotton through a related entity of which Parkdale owns 50% totalling \$45,157,000 for the year ended December 28, 2002.

As is industry practice, the Company had unfulfilled yarn sales contracts at varying prices at December 28, 2002 and December 29, 2001. The Company also had unfulfilled cotton purchase commitments at December 28, 2002 for approximately 200,000,000 pounds of cotton to be used in the production process at varying prices.

Shared Expenses Allocation

The Company, Parkdale and other affiliates share certain accounting and administrative expenses. In February 2001, Parkdale and Unifi agreed to change the allocation method for accounting and administrative expenses to a weighted average of certain key indicators, including, but not limited to, pounds of yarn sold and net sales. The total net cost of these expenses charged to the Company amounted to approximately \$15,077,000, \$16,000,000 and \$19,000,000 for the years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively. Management believes allocation method is reasonable.

PARKDALE AMERICA, LLC AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Due from Affiliates

Due from affiliates consists of the following as of December 28, 2002 and December 29, 2001:

	2002	2001
Due from (to) Magnolia	\$(201,000)	(Unaudited) \$1,718,000
Due from Summit	264,000	10,000
Due from (to) Parkdale	645,000	(135,000)
Due to Alliance Real Estate III	(22,000)	—
	\$ 686,000	\$1,593,000

The due to/from amounts result from affiliate charges related to inventory purchases, accounts receivable collections and the administrative expense allocation.

During the fiscal year 2001 and 2000, interest was earned on affiliate balances due to maintaining cotton inventory for Parkdale and Magnolia. The Company charged interest based on the cost of funds, which ranged from 4.8% to 6.9%. Interest income earned on balances due from Parkdale and Magnolia amounted to \$611,000 and \$606,000, respectively, for the year ended December 29, 2001. Interest income earned on balances due from Parkdale amounted to \$4,595,000 for the year ended December 30, 2000. In September 2001, the Company segregated its raw material cotton inventory from the raw material cotton inventory of Parkdale. Consequently, there was no interest earned during fiscal year 2002.

Notes Receivable from Affiliate

In connection with the transfer of Parkdale's interest in Summit to the Company, the Company assumed notes receivable from Summit in the amount of \$3,550,000, which bears interest at 5.5%, and \$1,677,000, which bears interest at 5.7%, at December 28, 2002 and December 29, 2001.

The maturity date of the notes is December 1, 2005. Interest income earned on balances due from Summit amounted to \$297,000, \$297,000, and \$527,000 for the years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively.

Air Jet Acquisition

In September 1998, the Company purchased certain assets of the air jet operations of Magnolia. The excess of the purchase price over the assets acquired was divided between the members' equity and intangible assets, based on the percentage of common control between the related entities. The intangible assets consist of customer lists acquired. In February 2001, the Members agreed to adjust the purchase price of the Air Jet Acquisition as of December 30, 2000, resulting in the Company recording a receivable of approximately \$11,796,000 from Magnolia, with associated adjustments of approximately \$1,112,000 to intangible assets, approximately \$9,131,000 to members' equity and approximately \$1,553,000 to interest income. The total intangible assets associated with the Air Jet Acquisition was \$4,275,000 as of December 28, 2002, net of accumulated amortization of \$1,759,000. Amortization expense for the years ended December 28, 2002 and December 29, 2001 was \$594,000 and \$267,000, respectively.

Fixed Asset Transfers

During the years ended December 28, 2002 and December 29, 2001, Parkdale transferred, at net book value, fixed assets of \$17,000 and \$738,000, respectively to the Company, which was settled by cash payment during the year. During the year ended December 28, 2002, the Company also transferred, at net book value, fixed assets of \$45,000 to Parkdale. No gain or loss was recognized on these transfers.

PARKDALE AMERICA, LLC AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Other

During February 2001, the Company completed a recapitalization of the consolidated balance sheet, which had no effect on the ownership percentages of the Members. As a result, the Company made special distributions to Parkdale and Unifi of \$95,457,000 and \$49,175,000, respectively. In addition, the Company paid dividends on current period earnings to the Members, based on ownership percentages of \$27,527,000 and \$6,837,000 for the years ended December 28, 2002 and December 29, 2001, respectively.

During the year ended December 28, 2002, Parkdale reimbursed the Company for certain expenses incurred relating to Summit. The income was recorded in other income (expense) in the consolidated statements of income totalling \$2,036,000.

The Company sells waste fibers to Henry Fibers, a company owned by a stockholder of Parkdale. Total sales amounted to \$461,000, \$480,000 and \$570,000 for the years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively.

9. Commitments and Contingencies

Capital Leases

The Company maintains a lease agreement with a bank. The lease agreement, covering certain real property of the Company assigned from Unifi, is accounted for as financing in accordance with SFAS No. 98. The lease term ends in January 2013, with an option to purchase the assets in 2006 for 69.55% of the aggregate acquisition cost.

Future minimum lease payments under this financing at December 28, 2002 are as follows:

2003	\$ 2,771,000
2004	2,884,000
2005	2,884,000
2006	2,884,000
2007	2,884,000
Thereafter	13,452,000
	<hr/>
Total minimum lease payments	27,759,000
Less — amounts representing interest	(7,741,000)
	<hr/>
Present value of net minimum lease payments	20,018,000
Less — current portion	(1,426,000)
	<hr/>
	\$ 18,592,000
	<hr/>

Lease interest expense for the years ended December 28, 2002, December 30, 2001 and December 30, 2000 was \$1,386,000, \$1,449,000 and \$1,509,000, respectively. The net book value of the assets covered under this capital lease amounted to \$16,119,000 and \$17,731,000 as of December 28, 2002 and December 30, 2001, respectively. The fair value of the Company's capital lease obligations approximates carrying value because the interest rate for the obligations is comparable to the Company's estimated long-term borrowing rate.

PARKDALE AMERICA, LLC AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Operating Leases

The Company has entered into operating leases for various vehicles and office equipment. At December 28, 2002, future minimum lease payments during the remaining noncancelable lease terms are as follows:

2003	\$ 537,000
2004	397,000
2005	196,000
2006	44,000
2007	35,000
Thereafter	3,000
	<hr/>
	\$1,212,000
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Exhibit (3b)

CERTIFICATE OF AMENDMENT
OF THE CERTIFICATE OF INCORPORATION OF
UNIFI, INC.

UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

The undersigned, Vice President and Secretary of Unifi, Inc., hereby certifies:

1. The name of the corporation is UNIFI, INC. (the corporation was originally named Automated Environmental Systems, Inc.).

2. A Certificate of Incorporation of Unifi, Inc. was filed by the Department of State on the 18th day of January, 1969 under the name Automated Environmental Systems, Inc. A Restated Certificate of Incorporation of Unifi, Inc. was filed by the Department of State on the 6th day of November, 1990, a Certificate of Amendment was filed by the Department of State on the 13th day of November, 1991, a Certificate of Amendment was filed by the Department of State on the 20th day of January, 1994, and a Restated Certificate of Incorporation of Unifi, Inc. was filed by the Department of State on the 9th day of September, 1994.

3. The Restated Certificate of Incorporation of this Corporation is hereby amended to declassify the Board of Directors of the Corporation, and in relation thereto ARTICLE SEVENTH of the Restated Certificate of Incorporation is hereby deleted in its entirety and a new ARTICLE SEVENTH is hereby inserted to henceforth read as follows:

"SEVENTH: The number of Directors shall be fixed in the By-Laws but in no case shall be less than nine (9), but this number may be increased and subsequently increased or decreased from time to time by the affirmative vote of the majority of the Board, except that the number of Directors shall not be less than nine (9). A Director shall hold office until his successor shall be elected and qualified, subject to prior death, resignation, retirement, or removal from office.

Newly created directorships resulting from an increase in the number of Directors and vacancies caused by death, resignation, retirement or removal from office, may be filled by the vote of a majority of the Directors remaining in office. Any Director elected by the Board to fill a vacancy shall serve until the next meeting of the Shareholders, at which the election of Directors is in the regular order of business, and until his successor is elected and qualified. In no case will a decrease in the number of Directors shorten the term of an incumbent Director."

4. The foregoing amendment to the Restated Certificate of Incorporation of this Corporation was authorized by the Board of Directors of the Corporation on the 4th day of July, 2002, and adopted by the affirmative vote of a majority of the shares of Unifi, Inc.'s common stock entitled to notice of and to vote at the Annual Meeting of the Shareholders held on October 23, 2002, a quorum having been present.

IN WITNESS WHEREOF, this Certificate has been subscribed this the

6th day of January, 2003, by the undersigned, who affirmed that the statements made herein are true under penalties of perjury.

UNIFI, INC.

CHARLES F. MCCOY

Charles F. McCoy
Vice President & Secretary

[CORPORATE SEAL]

AMENDMENT TO THE
CERTIFICATE OF INCORPORATION
OF
UNIFI, INC.

UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

FILED BY:

CHARLES F. MCCOY
VICE PRESIDENT & SEC.
OF UNIFI, INC.
P.O. BOX 19109
GREENSBORO, NC 27419-9109
(336) 316-5660

Exhibit (3c)

RESTATED BY-LAWS

OF

UNIFI, INC.

(Effective October 23, 2002)

RESTATED BY-LAWS

OF

UNIFI, INC.

ARTICLE I

SHAREHOLDERS

SECTION 1.01. ANNUAL MEETING. The Annual Meeting of Shareholders for the election of Directors and the transaction of such other business as may come before it shall be held on such date in each calendar year, not later than the one hundred fiftieth (150) day after the close of the Corporation's preceding fiscal year, and at such place as shall be fixed by the President and stated in the notice or waiver of notice of the meeting.

SECTION 1.02. SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose or purposes, may be called at any time by any Director, the President, any Vice President, the Treasurer or the Secretary or by resolution of the Board of Directors. Special meetings of the shareholders shall be held at such place as shall be fixed by the person or persons calling the meeting and stated in the notice or waiver of notice of the meeting.

SECTION 1.03. NOTICE OF MEETINGS OF SHAREHOLDERS. Whenever shareholders are required or permitted to take any action at a meeting, written notice shall state the place, date and hour of the

meeting and, unless it is the Annual Meeting, indicate that it is being issued by or at the direction of the person or persons calling the meeting. Notice of a special meeting shall also state the purpose or purposes for which the meeting is called. If, at any meeting, action is proposed to be taken which would, if taken, entitle shareholders fulfilling the requirements of Section 623 of the Business Corporation Law to receive payment for their shares, the notice of such meeting shall include a statement of that purpose to that effect. A copy of the notice of any meeting shall be given, personally or by mail, not less than ten nor more than fifty days before the date of the meeting, to each shareholder entitled to vote at such meeting. If mailed, such notice is given when deposited in the United States mail, with postage thereon prepaid, directed to the shareholder at his address as it appears on the record of shareholders, or, if he shall have filed with the Secretary of the Corporation a written request that notices to him be mailed to some other address, then directed to him at such other address.

When a meeting is adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken, and at the adjourned meeting any business may be transacted that might have been transacted on the original date of the meeting. However, if after the adjournment, the Board of Directors fixes a new record date for the adjourned meeting, a notice of the adjourned meeting shall be

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given to each shareholder of record on the new record date entitled to notice under the next preceding paragraph.

SECTION 1.04. WAIVERS OF NOTICE. Notice of meeting need not be given to any shareholder who submits a signed Waiver of Notice, in person or by proxy, whether before or after the meeting. The attendance of any shareholder at a meeting, in person or by proxy, without protesting prior to the conclusion of the meeting the lack of notice of such meeting, shall constitute a Waiver of Notice by him.

SECTION 1.05. QUORUM. The holders of a majority of the shares entitled to vote thereat shall constitute a quorum at a meeting of shareholders for the transaction of any business, provided that when a specified item of business is required to be voted on by a class or series, voting as a class, the holders of a majority of the shares of such class or series shall constitute a quorum for the transaction of such specified item of business.

When a quorum is once present to organize a meeting, it is not broken by the subsequent withdrawal of any shareholders.

The shareholders present may adjourn the meeting despite the absence of a quorum and at any such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally noticed.

SECTION 1.06. FIXING RECORD DATE. For the purpose of determining the shareholders entitled to notice of or to vote at

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any meeting of shareholders or any adjournment thereof, or to express consent to or dissent from any proposal without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividend or the allotment of any rights, or for the purpose of any other action, the Board of Directors may fix, in advance, a date as the record date for any such determination of shareholders. Such date shall not be more than fifty nor less than ten days before the date of such meeting, nor more than fifty days prior to

any other action.

When a determination of shareholders of record entitled to notice of or to vote at any meeting or shareholders has been made as provided in this Section, such determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date under this Section for the adjourned meeting.

SECTION 1.07. LIST OF SHAREHOLDERS AT MEETING. A list of shareholders as of the record date, certified by the corporate officer responsible for its preparation or by a transfer agent, shall be produced at any meeting of shareholders upon the request thereat or prior thereto of any shareholder. If the right to vote at any meeting is challenged, the inspectors of election, or person presiding thereat, shall require such list of shareholders to be produced as evidence of the right of the persons challenged to vote at such meeting, and all persons who appear from such list to be shareholders entitled to vote thereat may vote at such meeting.

SECTION 1.08. PROXIES. Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent without

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a meeting may authorize another person or persons to act for him by proxy.

Every proxy must be signed by the shareholder or his attorney-in-fact. No proxy shall be valid after the expiration of eleven months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the shareholder executing it, except as otherwise provided in this Section.

The authority of the holder of a proxy to act shall not be revoked by the incompetence or death of the shareholder who executed the proxy unless, before the authority is exercised, written notice of an adjudication of such incompetence or of such death is received by the Corporate Officer responsible for maintaining the list of shareholders.

Except when other provision shall have been made by written agreement between the parties, the record holder of shares which are held by a pledgee as security or which belong to another, upon demand therefor and payment of necessary expenses thereof, shall issue to the pledgor or to such owner of such shares a proxy to vote or take other action thereon.

A shareholder shall not sell his vote or issue a proxy to vote to any person for any sum of money or anything of value, except as authorized in this Section and Section 620 of the Business Corporation Law.

A proxy which is entitled "irrevocable proxy" and which states that it is irrevocable, is irrevocable when it is held by any of

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the following or a nominee of any of the following:

- (1) A Pledgee;
- (2) A person who has purchased or agreed to purchase the shares;
- (3) A creditor or creditors of the Corporation who extend or continue credit to the Corporation in consideration of the proxy if the proxy states that it was given in consideration of such extension or continuation of credit, the amount thereof, and the name of the person extending or continuing credit;

- (4) A person who has contracted to perform services as an Officer of the Corporation, if a proxy is required by the contract of employment, if the proxy states that it was given in consideration of such contract of employment, the name of the employee and the period of employment contracted for;
- (5) A person designated by or under an agreement under paragraph (a) of said Section 620.

Notwithstanding a provision in a proxy, stating that it is irrevocable, the proxy becomes revocable after the pledge is redeemed, or the debt of the Corporation is paid, or the period of employment provided for in the contract of employment has terminated, or the agreement under paragraph (a) of said Section 620 has terminated, and becomes revocable, in a case provided for in subparagraph (3) or (4) above, at the end of the period, if any, specified therein as the period during which it is irrevocable, or three years after the date of the proxy, whichever period is less, unless the period of irrevocability is renewed from time to time by the execution of a new irrevocable proxy as provided in this Section. This paragraph does not affect the duration of a proxy under the second paragraph of this Section.

A proxy may be revoked, notwithstanding a provision making it

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irrevocable, by a purchaser of shares without knowledge of the existence of the provision unless the existence of the proxy and its irrevocability is noted conspicuously on the face or back of the certificate representing such shares.

SECTION 1.09. SELECTION AND DUTIES OF INSPECTORS. The Board of Directors, in advance of any shareholders' meeting, may appoint one or more inspectors to act at the meeting or any adjournment thereof. If inspectors are not so appointed, the person presiding at a shareholders' meeting may, and on the request of any shareholder entitled to vote thereat shall, appoint one or more inspectors. In case any person appointed failed to appear or act, the vacancy may be filled by appointment made by the Board in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability.

The inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the person presiding at the meeting or any shareholder

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entitled to vote thereat, the inspectors shall make a report in writing of any challenge, question or matter determined by them and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated and of the vote as certified by them.

Unless appointed by the Board of Directors or requested by a shareholder, as above provided in this Section, inspectors shall be dispensed with at all meetings of shareholders.

The vote upon any question before any shareholders' meeting need not be by ballot.

SECTION 1.10. QUALIFICATION OF VOTERS. Every shareholder of record shall be entitled at every meeting of shareholders to one vote for every share standing in his name on the record of shareholders, except as expressly provided otherwise in this Section and except as otherwise expressly provided in the Certificate of Incorporation of the Corporation.

Treasury shares and shares held by another domestic or foreign corporation of any type or kind, if a majority of the shares entitled to vote in the election of Directors of such other corporation is held by the Corporation, shall not be shares entitled to vote or to be counted in determining the total number of outstanding shares.

Shares held by an administrator, executor, guardian, conservator, committee, or other fiduciary, except a Trustee, may be voted by him, either in person or by proxy, without transfer of such shares into his name. Shares held by a Trustee may be voted

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by him, either in person or by proxy, only after the shares have been transferred into his name as Trustee or into the name of his nominee.

Shares held by or under the control of a receiver may be voted by him without the transfer thereof into his name if authority so to do is contained in an order of the court by which such receiver was appointed.

A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, or a nominee of the pledgee.

Redeemable shares which have been called for redemption shall not be deemed to be outstanding shares for the purpose of voting or determining the total number of shares entitled to vote on any matter on and after the date on which written notice of redemption has been sent to holders thereof and a sum sufficient to redeem such shares has been deposited with a bank or trust company with irrevocable instruction and authority to pay the redemption price to the holders of the shares upon surrender of certificates therefor.

Shares standing in the name of another domestic or foreign corporation of any type or kind may be voted by such Officer, agent or proxy as the By-Laws of such corporation may provide, or, in the absence of such provision, as the Board of Directors of such corporation may determine.

When shares are registered on the record of shareholders of the Corporation in the name of, or have passed by operation of law

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or by virtue of any deed of trust or other instrument to two or more fiduciaries, and if the fiduciaries shall be equally divided as to voting such shares, any court having jurisdiction of their accounts, upon petition by any of such fiduciaries or by any party in interest, may direct the voting of such shares for the best interest of the beneficiaries. This paragraph shall not apply in any case where the instrument or order of the court appointing such fiduciaries shall otherwise direct how such shares shall be voted.

Notwithstanding the foregoing paragraphs of this Section, the Corporation shall be protected in treating the persons whose names shares stand on the record of shareholders as the owners thereof for all purposes.

SECTION 1.11. VOTE OF SHAREHOLDERS. Directors shall be elected by a plurality of the votes cast at a meeting of shareholders by the holders of shares entitled to vote in the election. Whenever any corporate action, other

than the election of Directors, is to be taken by vote of the shareholders, it shall, except as otherwise required by the Business Corporation Law or by the Certificate of Incorporation of the Corporation, be authorized by a majority of the votes cast at a meeting of shareholders by the holders of shares entitled to vote thereon.

SECTION 1.12. WRITTEN CONSENT OF SHAREHOLDERS. Whenever under the Business Corporation Law shareholders are required or permitted to take any action by vote, such action may be taken without a meeting on written consent, setting forth the action so taken, signed by the holders of all outstanding shares entitled to

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vote thereon. This paragraph shall not be construed to alter or modify the provisions of any section of the Business Corporation Law or any provision in the Certificate of Incorporation of the Corporation not inconsistent with the Business Corporation Law under which the written consent of the holders of less than all outstanding shares is sufficient for corporate action.

Written consent thus given by the holders of all outstanding shares entitled to vote shall have the same effect as a unanimous vote of shareholders.

ARTICLE II

DIRECTORS

SECTION 2.01. MANAGEMENT OF BUSINESS; QUALIFICATIONS OF DIRECTORS. The business of the Corporation shall be managed by its Board of Directors, each of whom shall be at least twenty-one years of age.

Directors need not be Stockholders.

The Board of Directors, in addition to the powers and authority expressly conferred upon it herein, by statute, by the Certificate of Incorporation of the Corporation and otherwise, is hereby empowered to exercise all such powers as may be exercised by the Corporation, except as expressly provided otherwise by the statutes of the State of New York, by the Certificate of Incorporation of the Corporation and these By-Laws.

SECTION 2.02. NUMBER OF DIRECTORS. The number of Directors

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which shall constitute the entire Board shall be ten (10), but this number may be increased and subsequently again increased or decreased from time to time by the affirmative vote of the majority of Directors, except that the number of Directors shall not be less than nine (9).

SECTION 2.03. ELECTION OF DIRECTORS. At each Annual Meeting of the Shareholders, Directors shall be elected to hold office until the next Annual Meeting of the Shareholders, subject to prior death, resignation, retirement, or removal from office and until his or her successor shall be elected and qualified.

SECTION 2.04. NEWLY CREATED DIRECTORSHIPS AND VACANCIES. Newly created Directorships resulting from an increase in the number of Directors and vacancies caused by death, resignation, retirement, or removal from office, subject to Section 2.05(b), may be filled by the majority of the Directors voting on the particular matter, if a quorum is present. If the number of Directors then in office is less than a quorum, such newly created Directorships and vacancies may be filled by the affirmative vote of a majority of the Directors in office. Any Director elected by the Board to fill a vacancy shall serve until the next meeting of the shareholders, at which the election of the

Directors is in the regular order of business, and until his or her successor is elected and qualified.

In no case will a decrease in the number of Directors shorten the term of an incumbent Director.

SECTION 2.05(A). RESIGNATIONS. Any Director of the

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Corporation may resign at any time by giving written notice to the Board of Directors, the President or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, if any, or if no time is specified therein, then upon receipt of such notice by the addressee; and, unless otherwise provided therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 2.05(B). REMOVAL OF DIRECTORS. Any or all of the Directors may be removed at any time (i) for cause by vote of the shareholders or by action on the Board of Directors or (ii) without cause by vote of the shareholders, except as expressly provided otherwise by Section 706 of the Business Corporation Law. The Board of Directors shall fill vacancies occurring in the Board by reason of removal of Directors for cause. Vacancies occurring by reason of removal without cause shall be filled by the Shareholders.

SECTION 2.06. QUORUM OF DIRECTORS. At all meetings of the Board of Directors, a majority of the number of Directors then office shall be necessary and sufficient to constitute a quorum for the transaction of business and the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as expressly provided otherwise by the statutes of the State of New York and except as provided in the third sentence of Section 2.04, in Section 2.11 and Section 7.09 hereof.

A majority of the Directors present, whether or not a quorum

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is present, may adjourn any meeting of the Directors to another time and place. Notice of any adjournment need not be given if such time and place are announced at the meeting.

SECTION 2.07. ANNUAL MEETING. The Board of Directors shall meet immediately following the adjournment of the Annual Meeting of shareholders in each year at the same place and no notice of such meeting shall be necessary.

SECTION 2.08. REGULAR MEETINGS. Regular meetings of the Board of Directors may be held at such time and place as shall from time to time be fixed by the Board and no notice thereof shall be necessary.

SECTION 2.09. SPECIAL MEETINGS. Special meetings may be called at any time by any Director, the President, any Vice President, the Treasurer, or the Secretary or by resolution of the Board of Directors. Special meetings shall be held at such place as shall be fixed by the person or persons calling the meeting and stated in the notice or waiver of notice of the meeting.

SECTION 2.10. COMPENSATION. Directors shall receive such fixed sums and expenses of attendance for attendance at each meeting of the Board or of any committee and/or such salary as may be determined from time to time by the Board of Directors; provided that nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 2.11. COMMITTEES. The Board of Directors, by

resolution adopted by a majority of the entire Board, may designate from among its members an Executive Committee and other committees, each consisting of three or more Directors, and each of which, to the extent provided in the resolution, shall have the authority of the Board of Directors, except that no such committee shall have authority as to the following matters:

- (a) The submission to shareholders of any action that needs shareholder's authorization under the Business Corporation Law.
- (b) The filling of vacancies in the Board of Directors or in any committee.
- (c) The fixing of compensation of the Directors for serving on the Board of Directors or on any committee.
- (d) The amendment or repeal of the By-Laws, or the adoption of new By-Laws.
- (e) The amendment or repeal of any resolution of the Board of Directors which by its terms shall not be so amendable or repealable.

The Board may designate one or more Directors as alternate members of any such committee, who may replace any absent member or members at any meeting of such committee. Each such committee shall serve at the pleasure of the Board of Directors.

Regular meetings of any such committee shall be held at such time and place as shall from time to time be fixed by such committee and no notice thereof shall be necessary. Special meetings may be called at any time by any Officer of the Corporation or any member of such committee. Notice of each special meeting of each such committee shall be given (or waived) in the same manner as notice of a special meeting of the Board of

Directors. A majority of the members of any such committee shall constitute a quorum for the transaction of business and the act of a majority of the members present at the time of the vote, if a quorum is present at such time, shall be the act of the committee.

SECTION 2.12. INTERESTED DIRECTORS. No contract or other transaction between the Corporation and one or more of its Directors, or between the Corporation and any other corporation, firm, association or other entity in which one or more of the Corporation's Directors are Directors or Officers, or are financially interested, shall be either void or voidable for this reason alone or by reason alone that such Director or Directors are present at the meeting of the Board of Directors, or of a committee thereof, which approves such contract or transaction, or that his or their votes are counted for such purpose:

- (1) If the fact of such common Directorship, Officership or financial interest is disclosed or known to the Board or committee, and the Board or committee approves such contract or transaction by a vote sufficient for such purpose without counting the vote or votes of such interested Director or Directors;
- (2) If such common Directorship, Officership or financial interest is disclosed or known to the shareholders entitled to vote thereon, and such contract or transaction is approved by vote

of the shareholders; or

- (3) If the contract or transaction is fair and reasonable as to the Corporation at the time it is approved by the Board, a committee of the shareholders.

Common or interested Directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which approves such contract or transaction.

SECTION 2.13. LOANS TO DIRECTORS. A loan shall not be made

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by the Corporation to any Director unless it is authorized by vote of the shareholders. For this purpose, the shares of the Director who would be the borrower shall not be shares entitled to vote. A loan made in violation of this Section shall be a violation of the duty to the Corporation of the Directors approving it, but the obligation of the borrower with respect to the loan shall not be affected thereby.

SECTION 2.14. CONSENT TO ACTION. Any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board or committee consent in writing, whether done before or after the action so taken, to the adoption of a resolution authorizing the action. The resolution and the written consent thereto shall be filed with the Minutes of the proceeding of the Board or the committee.

ARTICLE III

OFFICERS

SECTION 3.01. ELECTION OR APPOINTMENT: NUMBER. The Chairman of the Board of Directors and Officers of the Corporation shall be elected or appointed by the Board of Directors. The Officers shall be a President, a Secretary, a Treasurer, and such number of Executive Vice Presidents, Vice Presidents, Assistant Secretaries and Assistant Treasurers, and such other Officers, as the Board may from time to time determine. Any person may hold two or more

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offices at the same time, except the offices of President and Secretary. An Officer may, but no Officer need, be chosen from among the Board of Directors.

SECTION 3.02. TERM. Subject to the provisions of Section 3.03 hereof, all officers shall be elected or appointed to hold office until the meeting of the Board of Directors following the next Annual Meeting of shareholders, and each officer shall hold office for the term for which he is elected or appointed and until his successor has been elected or appointed and qualified. The Board may require any Officer to give security for the faithful performance of his duties.

SECTION 3.03. REMOVAL. Any Officer elected or appointed by the Board of Directors may be removed by the Board with or without cause.

The removal of an Officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an Officer shall not of itself create contract rights.

SECTION 3.04. AUTHORITY. Any Director or such other person as may be designated by the Board of Directors, and in the absence of such Director or other person, the President shall be the Chief Executive Officer ("CEO") of the Corporation. The CEO shall oversee the general operations of the Corporation and set company policy that would be implemented, interpreted and carried out by the

President of the Corporation who will report directly to the

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CEO. The Chairman of the Board shall preside at all meetings of the Board of Directors unless some other person is designated by the Board.

SECTION 3.05. VOTING SECURITIES OWNED BY THE CORPORATION. Powers of attorney, proxies, waivers or notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the President or any Vice-President and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any Corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

ARTICLE IV

CAPITAL STOCK

SECTION 4.01. STOCK CERTIFICATES. The shares of the Corporation shall be represented by certificates signed by the

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Chairman of the Board or the President or a Vice-President and the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer of the Corporation, and may be sealed with the seal of the Corporation or a facsimile thereof. The signatures of the Officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation itself or its employee. In case any Officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such Officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such Officer at the date of issue.

Each certificate representing shares shall also set forth such additional material as is required by subdivisions (b) and (c) of Section 508 of the Business Corporation Law.

SECTION 4.02. TRANSFERS. Stock of the Corporation shall be transferable in the manner prescribed by the laws of the State of New York and in these By-Laws Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before the new certificate shall be issued.

SECTION 4.03. REGISTERED HOLDERS. The Corporation shall be entitled to treat and shall be protected in treating the persons in whose names shares or any warrants, rights or options stand on the record of shareholders, warrant holders, right holders or option

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holders, as the case may be, as the owners thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, any

such share, warrant, right or option on the part of any other person, whether or not the Corporation shall have notice thereof, except as expressly provided otherwise by the Statutes of the State of New York.

SECTION 4.04. NEW CERTIFICATES. The Corporation may issue a new certificate of stock in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Directors may, in their discretion, require the owner of the lost, stolen or destroyed certificate, or his legal representatives, to give the Corporation a bond sufficient (in the judgment of the Directors) to indemnify the Corporation against any claim that may be made against it on account of the alleged loss or theft of any such certificate or the issuance of such new certificate. A new certificate may be issued without requiring any bond when, in the judgment of the Directors, it is proper so to do.

ARTICLE V

FINANCIAL NOTICES TO SHAREHOLDERS

SECTION 5.01. DIVIDENDS. When any dividend is paid or any other distribution is made, in whole or in part, from sources other than earned surplus, it shall be accompanied by a written notice (1) disclosing the amounts by which such dividend or distribution affects stated capital, capital surplus and earned surplus, or (2)

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if such amounts are not determinable at the time of such notice, disclosing the approximate effect of such dividend or distribution upon stated capital, capital surplus and earned surplus and stating that such amounts are not yet determinable.

SECTION 5.02. SHARE DISTRIBUTION AND CHANGES. Every distribution to shareholders of certificates representing a share distribution or a change of shares which affects stated capital, capital surplus or earned surplus shall be accompanied by a written notice (1) disclosing the amounts by which such distribution or change affects stated capital, capital surplus or earned surplus, or (2) if such amounts are not determinable at the time of such notice, disclosing the approximate effect of such distribution or change upon stated capital, capital surplus and earned surplus and stating that such amounts are not yet determinable.

When issued shares are changed in any manner which affects stated capital, capital surplus or earned surplus, and no distribution to shareholders of certificates representing any shares resulting from such change is made, disclosure of the effect of such change upon the stated capital, capital surplus and earned surplus shall be made in the next financial statement covering the period in which such change is made that is furnished by the Corporation to holders of shares of the class or series so changed or, if practicable, in the first notice of dividend or share distribution or change that is furnished to such shareholders between the date of the change and shares and the next such financial statement, and in any event within six months of the date

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of such change.

SECTION 5.03. CANCELLATION OF REACQUIRED SHARES. When reacquired shares other than converted shares are canceled, the stated capital of the Corporation shall be reduced by the amount of stated capital then represented by such shares plus any stated capital not theretofore allocated to any designated class or series which is thereupon allocated to the shares canceled. The amount by which stated capital has been reduced by cancellation of required shares during a stated period of time shall be disclosed in the next financial statement

covering such period that is furnished by the Corporation to all its shareholders or, if practicable, in the first notice of dividend or share distribution that is furnished to the holders of each class or series of its shares between the end of the period and the next such financial statement, and in any event to all its shareholders within six months of the date of the reduction of capital.

SECTION 5.04. REDUCTION OF STATED CAPITAL. When a reduction of stated capital has been effected under Section 516 of the Business Corporation Law, the amount of such reduction shall be disclosed in the next financial statement covering the period in which such reduction is made that is furnished by the Corporation to all its shareholders or, if practicable, in the first notice of dividend or share distribution that is furnished to the holders of each class or series of its shares between the date of such reduction and the next such financial statement, and in any event to all its shareholders within six months of the date of such

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reduction.

SECTION 5.05. APPLICATION OF CAPITAL SURPLUS TO ELIMINATION OF A DEFICIT. Whenever the Corporation shall apply any part or all of its capital surplus to the elimination of any deficit in the earned surplus account, such application shall be disclosed in the next financial statement covering the period in which such elimination is made that is furnished by the Corporation to all its shareholders or, if practicable, in the first notice of dividend or share distribution that is furnished to holders of each class or series of its shares between the date of such elimination and the next such financial statement, and in any event to all its shareholders within six months of the date of such action.

SECTION 5.06. CONVERSION OF SHARES. Should the Corporation issue any convertible shares, then, when shares have been converted, disclosure of the conversion of shares during a stated period of time and its effect, if any, upon stated capital shall be made in the next financial statement covering such period that is furnished by the Corporation to all its shareholders or, if practicable, in the first notice of dividend or share distribution that is furnished to the holders of each class or series of its shares between the end of such period and the next financial statement, and in any event to all its shareholders within six months of the date of the conversion of shares.

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ARTICLE VI

INDEMNIFICATION

SECTION 6.01. RIGHT TO INDEMNIFICATION. The Corporation shall indemnify, defend and hold harmless any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or other, including appeals, by reason of the fact that he is or was a Director, Officer or employee of the Corporation, or is or was serving at the request of the Corporation as a Director, Officer or employee of any Corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a Director, Officer or employee or in any other capacity while serving as a Director, Officer or employee, to the fullest extent authorized by the New York Business Corporation Law, as the same exists or may hereafter be amended, against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith; provided, however, that except as provided

in Section 6.02 hereof with respect to proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if the

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proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

The right to indemnification conferred in this Article shall be a contract right and shall include the right to be paid by the Corporation expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that if required by law at the time of such payment, the payment of such expenses incurred by a Director or Officer in his capacity as a Director or Officer (and not in any other capacity in which service was or is rendered by such person while a Director or Officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of such proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such Director or Officer, to repay all amounts so advanced if it should be determined ultimately that such Director or Officer is not entitled to be indemnified under this Section or otherwise.

"Employee" as used herein, includes both an active employee in the Corporation's service, as well as a retired employee who is or has been a party to a written agreement under which he might be, or might have been, obligated to render services to the Corporation.

SECTION 6.02. RIGHT OF CLAIMANT TO BRING SUIT. If a claim under Section 6.01 is not paid in full by the Corporation within sixty (60) days or, in cases of advances of expenses, twenty (20) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the

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Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the New York Business Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the New York Business Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its shareholders) that the claimant had not met such applicable standard of conduct shall be a defense to the action or create a presumption that claimant had not met the applicable standard of conduct. The Corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to this Article that the procedures and presumptions of this Article are not valid, binding and enforceable and shall stipulate in any such proceeding that the Corporation is bound by all provisions of this Article.

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SECTION 6.03. NONEXCLUSIVENESS. The indemnification and advances of expenses granted pursuant to, or provided by, this Article shall not be deemed exclusive of any other rights to which a Director or Officer seeking indemnification or advancement or expenses may be entitled, whether contained in the Certificate of Incorporation or these By-Laws, and the Board of Directors is authorized, from time to time in its discretion, to enter into agreements with one or more Directors, Officers and other persons providing for the maximum indemnification allowed by applicable law.

The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article (a) shall apply to acts or omissions antedating the adoption of this By-Law, (b) shall be severable, (c) shall not be exclusive of other rights to which any Director, Officer or employee may now or hereafter become entitled apart from this Article, (d) shall continue as to a person who has ceased to be such Director, Officer or employee and (e) shall inure to the benefit of the heirs, Executors and Administrators of such a person.

SECTION 6.04. INSURANCE FOR INDEMNIFICATION OF DIRECTORS AND OFFICERS. The Corporation shall have the power to purchase and maintain insurance (a) to indemnify the Corporation for any obligations which it incurs as the result of the indemnification of Directors and Officers under the provisions of this Article; (b) to

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indemnify Directors and Officers in instances which they may be indemnified by the Corporation under the provisions of this Article; and (c) to indemnify Directors and Officers in instances in which they may not otherwise be indemnified by the Corporation under the provisions of this Article, provided the contract of insurance covering such Directors and Officers provides, in a manner acceptable to the Superintendent of Insurance of the State of New York, for a retention amount and for co-insurance.

No insurance under the preceding paragraph of this Section may provide for any payment, other than the cost of defense, to or on behalf of any Director or Officer: (i) if a judgment or other final adjudication adverse to the insured Director or Officer establishes that his acts of active and deliberate dishonesty were material to the cause of action so adjudicated or that he personally gained in fact a financial profit or other advantage to which he was not legally entitled, or (ii) in relation to any risk the insurance of which is prohibited under the insurance laws of the State of New York.

ARTICLE VII

MISCELLANEOUS

SECTION 7.01. OFFICES. The principal office of the Corporation shall be in the City of New York, County of New York, State of New York. The Corporation may also have offices at other places, within and/or without the State of New York.

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SECTION 7.02. SEAL. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its incorporation and the words "Corporate Seal of New York".

SECTION 7.03. CHECKS. All checks or demands for money shall be signed by such person or persons as the Board of Directors may from time to time determine.

SECTION 7.04. FISCAL YEAR. The fiscal year of the Corporation shall begin on the 1st day of July in each year and shall end on the 30th day of June

of the ensuing year and the first fiscal year shall end on June 30, 1969.

SECTION 7.05. BOOKS AND RECORDS. The Corporation shall keep correct and complete books and records of accounts and shall keep minutes of the proceedings of its shareholders, Board of Directors and Executive Committee, if any, and shall keep at the office of the Corporation in New York State or at the office of its transfer agent or registrar in New York State, a record containing the names and addresses of all shareholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof. Any of the foregoing books, minutes or records may be in written form or in any other form capable of being converted into written form within a reasonable time.

SECTION 7.06. DUTY OF DIRECTORS AND OFFICERS. Directors and Officers shall discharge the duties of their respective positions in good faith and with that degree of diligence, care and skill which ordinarily prudent men would exercise under similar

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circumstances in like positions. In discharging their duties, Directors and Officers, when acting in good faith, may rely upon financial statements of the Corporation represented to them to be correct by the President or the Officer of the Corporation having charge of its books of accounts, or stated in a written report by an independent public or certified public accountant or firm of such accountants fairly to reflect the financial condition of the Corporation.

SECTION 7.07. WHEN NOTICE OR LAPSE OF TIME UNNECESSARY; NOTICE DISPENSED WITH WHEN DELIVERY IS PROHIBITED. Whenever, under the Business Corporation Law or the Certificate of Incorporation or the By-Law of the Corporation or by the terms of any agreement or instrument, the Corporation or the Board of Directors or any committee thereof is authorized to take any action after notice to any person or persons or after the lapse of a prescribed period of time, such action may be taken without notice and without the lapse of such period of time, if at any time before or after such action is completed the person or persons entitled to such notice or entitled to participate in the action to be taken or, in the case of a shareholder, by his attorney-in-fact, submit a signed waiver of notice of such requirements.

Whenever any notice or communication is required to be given to any person by the Business Corporation Law, the Certificate of Incorporation of the Corporation or these By-Laws, or by the terms of any agreement or instrument, or as a condition precedent to taking any corporate action and communication with such person is

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then unlawful under any statute of the State of New York or of the United States or any regulation, proclamation or order issued under said statutes, then the giving of such notice or communication to such person shall not be required and there shall be no duty to apply for license or other permission to do so. Any affidavit, certificate or other instrument which is required to be made or filed as proof of the giving of any notice or communication required the Business Corporation Law shall, if such notice or communication to any person is dispensed with under this paragraph, include a statement that such notice or communication was not given to any person with whom communication is unlawful. Such affidavit, certificate or other instrument shall be as effective for all purposes as though such notice or communication had been personally given to such person.

SECTION 7.08. ENTIRE BOARD. As used in these By-Laws, the term "Entire Board" means the total number of Directors which the Corporation would have if there were no vacancies.

SECTION 7.09. AMENDMENT OF BY-LAWS. These By-Laws may be amended or repealed and new By-Laws adopted by the Board of Directors or by vote of the holders of the shares at the time entitled to vote of the holders of the shares at the time entitled to vote in the election of any Directors, except that any amendment by the Board changing the number of Directors shall require the vote of a majority of the Entire Board and except that any By-Laws adopted by the Board may be amended or repealed by the shareholders

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entitled to vote thereon as provided in the Business Corporation Law.

If any By-Law regulating an impending election of Directors is adopted, amended or repealed by the Board, the shall be set forth in the notice of the next meeting of shareholders for the election of Directors the By-Law so adopted, amended or repealed, together with a concise statement of the changes made.

SECTION 7.10 NONAPPLICATION OF NORTH CAROLINA SHAREHOLDER PROTECTION ACT. The provisions of North Carolina General Statutes 55-75 through 55-79 shall not be applicable to this Corporation.

SECTION 7.11. SECTION HEADINGS. The Headings to the Articles and Sections of these By-Laws have been inserted for convenience of reference only and shall not be deemed to be a part of these By-Laws.

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Exhibit (10g)

REALLOCATION AMENDMENT AND ASSIGNMENT

THIS REALLOCATION AMENDMENT AND ASSIGNMENT (this "Amendment"), dated as of January 1, 2003 is by and among UNIFI, INC., a New York corporation (the "Parent"), certain Subsidiaries of the Parent (each a "Borrower", and collectively with the Parent, the "Borrowers"), THE PERSONS IDENTIFIED AS THE "EXISTING LENDERS" ON THE SIGNATURE PAGES HERETO (the "Existing Lenders"), THE PERSONS IDENTIFIED AS "REMAINING LENDERS" ON THE SIGNATURE PAGES HERETO (the "Remaining Lenders" and, together with the Existing Lender, the "Lenders") and BANK OF AMERICA, N.A., as Agent for the Lenders (the "Agent").

W I T N E S S E T H:

WHEREAS, pursuant to the Credit Agreement dated as of December 7, 2001, as amended (the "Existing Credit Agreement") among the Borrowers, the Existing Lenders and the Agent, the Existing Lenders have extended commitments to make certain credit facilities available to the Borrowers;

WHEREAS, pursuant to Section 3.2 of the Existing Credit Agreement, the Borrowers, upon timely notice to the Agent and the Lenders, were permitted to permanently reduce the Maximum Revolver Amount;

WHEREAS, the Borrowers delivered such notice and have elected to reduce the Maximum Revolver Amount to \$100,000,000;

WHEREAS, Comerica Bank desires to assign its Commitment pro rata to the Remaining Lenders; and

WHEREAS, in connection with such reduction and assignment, the parties hereto have agreed to amend the Existing Credit Agreement as set forth herein.

NOW, THEREFORE, in consideration of the agreements herein contained and other good and valuable consideration, the parties hereby agree as follows:

PART I
DEFINITIONS

SUBPART 1.1. Certain Definitions. Unless otherwise defined herein or the context otherwise requires, the following terms used in this Amendment, including its preamble and recitals, have the following meanings:

"Amended Credit Agreement" means the Existing Credit Agreement as amended hereby.

"Amendment Effective Date" shall have the meaning set forth in Subpart 4.1.

SUBPART 1.2. Other Definitions. Unless otherwise defined herein or the context otherwise requires, terms used in this Amendment, including its preamble and recitals, have the meanings provided in the Amended Credit Agreement.

PART II
AMENDMENTS TO EXISTING CREDIT AGREEMENT

SUBPART 2.1. Amendment to Section 5.2(1). Effective on (and subject to the occurrence of) the Amendment Effective Date, Section 5.2(1) of the Credit Agreement is hereby amended by replacing the proviso therein with the following:

Provided, however, that if Availability is \$35,000,000 or more at all times during the month, then the Borrowing Base Certificates will be furnished only on a monthly basis as soon as available, but in any event by the 30th day of the following month and concurrently therewith, or more frequently if requested by the Agent, a schedule of Borrower's accounts created, credits given, cash collected and other adjustments to Accounts made since the date of the last such schedule and the related Borrowing Base Certificate.

SUBPART 2.2. Amendment to Annex A. Effective on (and subject to the occurrence of) the Amendment Effective Date, the definition of "Maximum Inventory Loan Amount" set forth in Annex A of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

"Maximum Inventory Loan Amount" means \$50,000,000.

SUBPART 2.3. Amendment to Schedule 1.1A. Effective on (and subject to the occurrence of) the Amendment Effective Date, Schedule 1.2 to the Existing Credit Agreement is hereby amended and replaced with a new Schedule 1.2 in the form attached as Schedule 1.2 hereto.

PART III ASSIGNMENTS AND ASSUMPTIONS

The Existing Lenders hereby sell and assign, without recourse, to the Remaining Lenders, and each Remaining Lender hereby purchases and assumes, without recourse, from the Existing Lenders, effective as of the Amendment Effective Date, such interests in the Existing Lenders' rights and obligations under the Amended Credit Agreement as shall be necessary in order to give effect to the reallocations of the Commitments effected by the amendment to Schedule 1.2 to the Existing Credit Agreement pursuant to Part II, including, without limitation, the Loans, Letters of Credit and other extensions of credit owing to the Existing Lenders which are outstanding on the Amendment Effective Date, together with unpaid interest accrued on the assigned Loans and other extensions of credit to the Amendment Effective Date and the amount, if any, set forth below of the

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Fees accrued to the Amendment Effective Date for the account of the Existing Lenders. Each Existing Lender and each Remaining Lender hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 11.2(c) of the Amended Credit Agreement, a copy of which has been received by each such party. From and after the Amendment Effective Date (i) each Remaining Lender shall be a party to and be bound by the provisions of the Amended Credit Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Existing Lenders shall, to the extent of the interests assigned by this Amendment, relinquish their rights (other than any rights it may have pursuant to Section 14.11 of the Amended Credit Agreement which will survive) and be released from its obligations under the Amended Credit Agreement. Each Existing Lender represents and warrants to each Remaining Lender that (i) it is the legal and beneficial owner of the interest being assigned hereby free and clear of any adverse claim and (ii) it is legally authorized to enter into this Amendment.

PART IV CONDITIONS TO EFFECTIVENESS

SUBPART 4.1. Amendment Effective Date. This Amendment shall be and become effective as of the date hereof when all of the conditions set forth in this Part IV shall have been satisfied (the "Amendment Effective Date"), and thereafter this Amendment shall be known, and may be referred to, as "Reallocation Amendment and Assignment."

SUBPART 4.2. Execution of Counterparts of Amendment. The Agent shall have received counterparts of this Amendment, which collectively shall have been duly executed on behalf of each of the Borrowers, the Agent and the Lenders.

SUBPART 4.3. Fees and Expenses. The Borrowers shall have paid all fees and expenses of the Agent and the Lenders in connection with this Amendment and the extensions of credit hereunder.

PART V
MISCELLANEOUS

SUBPART 5.1. Cross-References. References in this Amendment to any Part or Subpart are, unless otherwise specified, to such Part or Subpart of this Amendment.

SUBPART 5.2. References in Other Credit Documents. At such time as this Amendment shall become effective pursuant to the terms of Subpart 4.1, all references in the Existing Credit Agreement to the "Credit Agreement" and all references in the other Loan Documents to the "Credit Agreement" shall be deemed to refer to the Amended Credit Agreement.

SUBPART 5.3. Representations and Warranties of the Borrower. Each Borrower hereby represents and warrants that (a) the conditions precedent to the initial Loans were satisfied as of the Closing Date, (b) the representations and warranties contained in Section 6 of the Existing

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Credit Agreement (as amended by this Amendment) are correct in all material respects on and as of the date hereof as though made on and as of such date and after giving effect to the amendments contained herein and (c) no Default or Event of Default exists under the Existing Credit Agreement on and as of the date hereof and after giving effect to the amendments contained herein.

SUBPART 5.4. Counterparts. This Amendment may be executed by the parties hereto in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement.

SUBPART 5.5. Governing Law. THIS AMENDMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NORTH CAROLINA WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

SUBPART 5.6. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

SUBPART 5.7. Assignment Pursuant to the Credit Agreement. Notwithstanding any provision in the Amended Credit Agreement to the contrary, the execution of this Amendment shall constitute an assignment for purposes of Section 11.2 of the Amended Credit Agreement.

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Each of the parties hereto has caused a counterpart of this Amendment

to be duly executed and delivered as of the date first above written.

BORROWERS:

UNIFI, INC., a New York corporation

By: WILLIS C. MOORE III

Name: Willis C. Moore III
Title: Executive Vice President & CFO

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

By: WILLIS C. MOORE III

Name: Willis C. Moore III
Title: Executive Vice President & CFO

UNIFI MANUFACTURING, INC.,
a North Carolina corporation

By: WILLIS C. MOORE III

Name: Willis C. Moore III
Title: Executive Vice President & CFO

GLENTOUCH YARN COMPANY, LLC,
a North Carolina limited liability company

By: WILLIS C. MOORE III

Name: Willis C. Moore III
Title: Executive Vice President & CFO

UNIFI MANUFACTURING VIRGINIA, LLC,
a North Carolina limited liability company

By: WILLIS C. MOORE III

Name: Willis C. Moore III
Title: Executive Vice President & CFO

UNIFI EXPORT SALES, LLC,
a North Carolina limited liability company

By: WILLIS C. MOORE III

Name: Willis C. Moore III
Title: Executive Vice President & CFO

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

By: WILLIS C. MOORE III

Name: Willis C. Moore III
Title: Executive Vice President & CFO

LENDERS:

BANK OF AMERICA, N.A.,
in its capacity as Agent

By: _____
Name: _____
Title: _____

BANK OF AMERICA, N.A.,
in its capacity as a Lender, as an
Existing lender and as a Remaining Lender

By: _____
Name: _____
Title: _____

THE CIT GROUP/COMMERCIAL SERVICES, INC.,
as an Existing Lender and as a Remaining
Lender

By: _____
Name: _____
Title: _____

CONGRESS FINANCIAL CORPORATION (SOUTHERN),
as an Existing lender and as a Remaining
Lender

By: _____
Name: _____
Title: _____

FLEET CAPITAL CORPORATION,
as an Existing lender and as a Remaining
Lender

By: _____
Name: _____
Title: _____

FOOTHILL CAPITAL CORPORATION,
as an Existing lender and as a Remaining
Lender

By: _____
Name: _____
Title: _____

PNC BUSINESS CREDIT,
as an Existing lender and as a Remaining
Lender

By: _____
Name: _____
Title: _____

CITIZENS BUSINESS CREDIT, A DIVISION OF
CITIZENS LEASING CORPORATION, as an
Existing lender and as a Remaining Lender

By: _____
Name: _____
Title: _____

COMERICA BANK
as an Existing Lender

By: _____
Name: _____
Title: _____

Schedule 1.2

LENDERS' COMMITMENTS

Lender -----	Revolving Loan Commitment -----	Pro Rate Share (to 3 decimals) -----
BANK OF AMERICA, N.A.	\$21,428,000	21.428%
THE CIT GROUP/COMMERCIAL SERVICES, INC.	\$21,428,000	21.428%
CONGRESS FINANCIAL CORPORATION (SOUTHERN)	\$14,286,000	14.286%
FLEET CAPITAL CORPORATION	\$14,286,000	14.286%

FOOTHILL CAPITAL CORPORATION	\$10,715,000	10.715%
PNC BUSINESS CREDIT	\$10,715,000	10.715%
CITIZENS BUSINESS CREDIT, A DIVISION OF CITIZENS LEASING CORPORATION	\$7,142,000	7.142%

Exhibit (10h)

SECOND AMENDMENT

THIS SECOND AMENDMENT (this "Amendment"), dated as of August 6, 2003 is by and among UNIFI, INC., a New York corporation (the "Parent"), certain Subsidiaries of the Parent (each a "Borrower", and collectively with the Parent, the "Borrowers"), THE PERSONS IDENTIFIED AS THE LENDERS ON THE SIGNATURE PAGES HERETO (the "Lenders"), and BANK OF AMERICA, N.A., as Agent for the Lenders (the "Agent").

W I T N E S S E T H:

WHEREAS, pursuant to the Credit Agreement dated as of December 7, 2001, as amended by that certain Reallocation Amendment and Assignment dated as of January 1, 2003, and as further amended from time to time (the "Existing Credit Agreement") among the Borrowers, the Existing Lenders and the Agent, the Existing Lenders have extended commitments to make certain credit facilities available to the Borrowers;

WHEREAS, the Borrowers desire to amend certain provisions of the Existing Credit Agreement;

WHEREAS, the parties hereto have agreed to amend the Existing Credit Agreement as set forth herein.

NOW, THEREFORE, in consideration of the agreements herein contained and other good and valuable consideration, the parties hereby agree as follows:

PART I
DEFINITIONS

SUBPART 1.1. Certain Definitions. Unless otherwise defined herein or the context otherwise requires, the following terms used in this Amendment, including its preamble and recitals, have the following meanings:

"Amended Credit Agreement" means the Existing Credit Agreement as amended hereby.

"Second Amendment Effective Date" shall have the meaning set forth in Subpart 3.1.

SUBPART 1.2. Other Definitions. Unless otherwise defined herein or the context otherwise requires, terms used in this Amendment, including its preamble and recitals, have the meanings provided in the Amended Credit Agreement.

PART II
AMENDMENTS TO EXISTING CREDIT AGREEMENT

SUBPART 2.1. Amendment to Section 7.10. The text of Section 7.10 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

No Borrower shall (a) directly or indirectly declare or make, or incur any liability to make Distributions (provided, however, (x) Distributions may be made to the Parent or any Borrower from any of its Subsidiaries and (y) Distributions may be made by the Parent so long as (i) Availability shall be at least \$25,000,000 after giving effect thereto and (ii) no Default or Event of Default shall exist prior to or immediately after the making of any such Distributions), (b) make any

change in its capital structure which could have a Material Adverse Effect or (c) make any Restricted Investments.

PART III
CONDITIONS TO EFFECTIVENESS

SUBPART 3.1. Second Amendment Effective Date. This Amendment shall be and become effective as of the date hereof when all of the conditions set forth in this Part III shall have been satisfied (the "Second Amendment Effective Date"), and thereafter this Amendment shall be known, and may be referred to, as "Second Amendment."

SUBPART 3.2. Execution of Counterparts of Amendment. The Agent shall have received counterparts of this Amendment, which collectively shall have been duly executed on behalf of each of the Borrowers, the Agent and the Lenders.

SUBPART 3.3. Fees and Expenses. The Borrowers shall have paid all fees and expenses of the Agent and the Lenders in connection with this Amendment and the extensions of credit hereunder.

PART IV
MISCELLANEOUS

SUBPART 4.1. Cross-References. References in this Amendment to any Part or Subpart are, unless otherwise specified, to such Part or Subpart of this Amendment.

SUBPART 4.2. References in Other Credit Documents. At such time as this Amendment shall become effective pursuant to the terms of Subpart 3.1, all references in the Existing Credit Agreement to the "Credit Agreement" and all references in the other Loan Documents to the "Credit Agreement" shall be deemed to refer to the Amended Credit Agreement.

SUBPART 4.3. Representations and Warranties of the Borrower. Each Borrower hereby represents and warrants that (a) the conditions precedent to the initial Loans were satisfied as of

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the Closing Date, (b) the representations and warranties contained in Section 6 of the Existing Credit Agreement (as amended by this Amendment) are correct in all material respects on and as of the date hereof as though made on and as of such date and after giving effect to the amendments contained herein and (c) no Default or Event of Default exists under the Existing Credit Agreement on and as of the date hereof and after giving effect to the amendments contained herein.

SUBPART 4.4. Counterparts. This Amendment may be executed by the parties hereto in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement.

SUBPART 4.5. Governing Law. THIS AMENDMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NORTH CAROLINA WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

SUBPART 4.6. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

[The remainder of this page is intentionally left blank.]

Each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

BORROWERS:

UNIFI, INC., a New York corporation

By: ROBERT J. KOCOUREK

Name: Robert J. Kocourek
Title: Vice President & CFO

UNIFI MANUFACTURING, INC.,
a North Carolina corporation

By: ROBERT J. KOCOUREK

Name: Robert J. Kocourek
Title: Vice President & CFO

GLENTOUCH YARN COMPANY, LLC,
a North Carolina limited liability company

By: ROBERT J. KOCOUREK

Name: Robert J. Kocourek
Title: Vice President & CFO

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

By: ROBERT J. KOCOUREK

Name: Robert J. Kocourek
Title: Vice President & CFO

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

By: ROBERT J. KOCOUREK

Name: Robert J. Kocourek
Title: Vice President & CFO

UNIFI MANUFACTURING VIRGINIA, LLC,
a North Carolina limited liability company

By: ROBERT J. KOCOUREK

Name: Robert J. Kocourek
Title: Vice President & CFO

UNIFI EXPORT SALES, LLC,
a North Carolina limited liability company

By: ROBERT J. KOCOUREK

Name: Robert J. Kocourek
Title: Vice President & CFO

LENDERS:

BANK OF AMERICA, N.A.,
in its capacity as Agent

By: -----
Name: -----
Title: -----

BANK OF AMERICA, N.A.,
in its capacity as a Lender,

By: -----
Name: -----
Title: -----

THE CIT GROUP/COMMERCIAL SERVICES, INC.,

By: -----
Name: -----
Title: -----

CONGRESS FINANCIAL CORPORATION (SOUTHERN),

By: -----
Name: -----
Title: -----

FLEET CAPITAL CORPORATION,

By: -----
Name: -----
Title: -----

FOOTHILL CAPITAL CORPORATION,

By:

Name: -----
Title: -----

PNC BUSINESS CREDIT,

By: -----
Name: -----
Title: -----

CITIZENS BUSINESS CREDIT, A DIVISION OF
CITIZENS LEASING CORPORATION,

By: -----
Name: -----
Title: -----

CONFIDENTIAL

December 8, 1999

Mr. Michael E. Delaney
1802 Tiffany Place
Greensboro, NC 27408

Dear Mike:

I am pleased to extend an offer of employment to you as the Senior Vice President of Unifi, Inc., effective January 1, 2000. In this capacity, you will report to me and be accountable for establishing and leading a best-of-class marketing infrastructure for Unifi. Specific duties include strategic business planning and budgeting, the comprehensive integration of commercial activity into a unified branding strategy, the successful implementation of that strategy and all other marketing-related activity. You will be expected to interact very closely with customers to develop the commercial insights required for relevant marketing positioning and campaigns. You will be expected to collaborate closely with manufacturing, procurement, product development and executive management as you develop and implement your plans. You will be responsible for the development of e-commerce as it relates to the commercial strategy of our company. You will also be responsible for planning and staffing the marketing department as well as developing the processes that will enable successful implementation of marketing programs.

The details of your compensation and benefits package, provided you accept our offer, consists of the following:

1. Base Salary
Your base annual salary, effective upon your commencement of employment with Unifi is \$225,000 to be paid at regular intervals in accordance with the general practices of the company.
2. Bonus Opportunity
Based on the Board of Directors Compensation Committee's recommendation achieving an earnings per share target of \$1.10 for fiscal year 2000 would provide a bonus of 50% of your base compensation. The bonus for fiscal year 2000 is based on a sliding scale and phases out below \$.90 per share with an up-side potential above \$1.10 per share. The maximum bonus is equal to 100% of base salary. Please note that 50% of your bonus will be paid in Unifi shares and will be matched with an equal number. Should you elect to take a greater portion of

your bonus in stock, it, too, will be matched. The matching shares will vest over a three-year period beginning on the date of the match. The purpose of this is to help you achieve your obligation to hold three times your salary in stock.
3. Stock Grant
A grant of 5,000 restricted shares of common stock will be awarded effective with your start date. These shares will vest over a five-year period beginning on the day of the grant. You should be aware that, as a member of executive management, you will be expected to build toward and maintain a position in Unifi stock equal to three-times the value of your base salary.

4. Options Award
An award of options in common stock will be granted effective with your start date. The number of options to be received is equal to three times annual base compensation divided by the average share price on the date of the award. The options will vest over a five-year period beginning on the date of the option grant.
5. Automobile Allowance
An automobile allowance of \$1,000 per month will be paid on the first day of each month. Additionally, Unifi will reimburse for actual auto expenses such as gas, oil, cleaning and normal repairs. Insurance costs and property taxes are not reimbursable.
6. Life Insurance
A split dollar life insurance package will be provided which will have a death benefit equal to three times annual base salary.
7. Company Benefits
You will participate in all company life, health, medical and dental plans as well as profit sharing and 401-K plans when eligible under the specific plan guidelines.
 - a) The company contribution to the profit sharing plan is discretionary based on the Board of Directors' recommendation, however, for the past three years, the contribution for an individual with a base salary of \$225,000 would have been approximately \$18,000.
 - b) The 401-K plan does not provide a company match.
8. Signing Agreement
Unifi recognizes that you are due a performance bonus from your current employer equal to 30% of your current base salary. Depending on Volvo's decision as to the amount of bonus paid subsequent to your resignation, Unifi will make up the difference equal to the anticipated 1999 Volvo bonus. For example, assuming a 30% bonus of your \$177,000 base (\$53,100), should Volvo decide to pay you a lower bonus of \$30,000, Unifi will pay you an additional \$23,100 to keep you whole at your total expected bonus of \$53,100.
9. Severance Understanding
In the unlikely event that some circumstance should occur beyond your control resulting in a separation of employment, Unifi will pay you your base salary for a period of twelve months except in the case of disciplinary termination.

Mike, I think you will make a strong member of our executive team and I look forward to welcoming you to Unifi. Please let me know if you have any questions and I look forward to hearing from you as soon as possible.

Sincerely,

Brian Parke
President and Chief Operating Officer
Unifi, Inc.

Accepted by: MICHAEL E. DELANEY

Michael E. Delaney

December 21, 1999

Date

SEVERANCE AGREEMENT

This SEVERANCE AGREEMENT ("Agreement") effective the 30th day of April, 2003 (the "Effective Date"), by and between UNIFI, INC., a New York corporation (hereinafter referred to as "UNIFI" or the "Company"), and G. ALFRED WEBSTER (hereinafter referred to as "EMPLOYEE");

W I T N E S S E T H:

WHEREAS, EMPLOYEE has been employed by UNIFI; and

WHEREAS, the Company and EMPLOYEE have determined that the EMPLOYEE'S employment with the Company will be terminated on the Effective Date under the terms of this Agreement; and

WHEREAS, under the terms set forth in this Agreement, EMPLOYEE and UNIFI agree to settle any and all claims, obligations and/or causes of action that one may have against the other arising from EMPLOYEE'S employment with the Company; and

WHEREAS, EMPLOYEE HEREBY ACKNOWLEDGES THAT HE WAS UNDER NO OBLIGATION WHATSOEVER TO ACCEPT THE TERMS OF THIS AGREEMENT, AND THAT PRIOR TO EXECUTING THIS AGREEMENT HE WAS GIVEN THE OPPORTUNITY TO REQUEST A COPY OF THIS AGREEMENT AND DELAY HIS DECISION WHETHER OR NOT TO ACCEPT THE TERMS OF THIS AGREEMENT FOR UP TO FORTY-FIVE (45) DAYS FOR ANY REASON, INCLUDING TO CONFER WITH ANY LAWYER OR OTHER ADVISOR HE MAY WISH TO CONSULT; and

WHEREAS, EMPLOYEE also acknowledges that he has received a document identifying the job title and age of each employee in his decisional unit, and whether or not each employee was selected for termination.

NOW, THEREFORE, in consideration of these premises and mutual agreements herein contained, and intending to be legally bound hereby, the Parties agree as follows:

SECTION 1. CONSIDERATION - UNIFI agrees to pay EMPLOYEE the sum of Seven Hundred Forty Thousand Sixteen Dollars and 00/100 (\$740,016.00) as severance due to termination of his employment with Unifi (the "Severance Payment"). The Promissory Note Balance of \$65,598.07 as set forth in Section 8A below plus an additional \$29,519.13 in United States and North Carolina withholding taxes on the Promissory Note Balance (i.e. \$65,598.07 x .45) shall be deducted from the Severance Payment to get the resulting balance of severance due to EMPLOYEE of Six Hundred Forty-Four Thousand Eight Hundred Ninety-Eight Dollars and 80/100 (\$644,898.80) (the "Resulting Severance Payment"). The Resulting Severance Payment shall be paid to EMPLOYEE in twenty (20) equal monthly

installments of Thirty Thousand Eight Hundred Thirty-Four Dollars and 00/100 (\$30,834.00) beginning on the regular payroll date for salaried employees of UNIFI in May 2003 and continuing until December 2004 and one final monthly installment of Twenty-Eight Thousand Two Hundred Eighteen Dollars and 80/100 (\$28,218.80) on the regular payroll date for salaried employees of UNIFI in January 2005 (the "Monthly Payments"). Each such Monthly Payment will be subject to all applicable federal and state taxes. The parties agree that the Company has no prior legal obligation to make the Severance Payment or to provide any of the other benefits set forth in

this Agreement to the EMPLOYEE.

SECTION 2. RESIGNATION FROM COMPANY - On the Effective Date, EMPLOYEE shall execute a written Resignation in the form of Exhibit "A" attached hereto resigning as an employee of the Company.

SECTION 3A. MEDICAL AND DENTAL INSURANCE - UNIFI will continue to provide EMPLOYEE medical and dental coverage similar to the medical and dental coverages at that time being provided to regular employees covered by the terms of the Unifi, Inc. Employee Welfare Benefit Plan then in effect (the "Medical Plan"), until the earlier of the last day of the month in which EMPLOYEE attains the age of 65 years or until such time as EMPLOYEE has begun new employment, including gainful self-employment (as determined by Unifi in its sole discretion). EMPLOYEE shall be eligible to receive such medical and dental benefits in order that he may obtain coverage for himself and his dependents, as the term "dependent" is defined in the medical plan, so that the following shall apply to coverage of EMPLOYEE and his dependents.

(A) As a condition of coverage of EMPLOYEE, he must pay for each month of coverage an amount equal to the premium paid for such month by an active employee for coverage under the Medical Plan. During the time when Monthly Payments, if any, are being made, such premiums shall be paid by deductions from such installments unless UNIFI in its sole discretion determines otherwise. Thereafter, such premiums shall be due on the first day of the month to which they apply, and the medical and dental coverage shall be terminated unless such premiums are received when due, without any grace period.

(B) As a condition of coverage of a Dependent, EMPLOYEE must pay for each month of coverage an amount equal to the premium paid for such month by any active employee for coverage of a Dependent under the Medical Plan. During the time when Monthly Payments, if any, are being made, such premiums shall be paid by deductions from such installments unless UNIFI in its sole discretion determines otherwise. Thereafter, such premiums shall be due on the first day of the month to which they apply, and the medical and dental coverage shall be terminated unless such premiums are received when due, without any grace period.

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(C) The terms of medical and dental coverage for EMPLOYEE and his Dependents at any given time shall be the terms applicable to active employees and their Dependents at such time. It is explicitly understood and agreed that any amendments to or alteration of the Medical Plan (including any amendment terminating the Medical Plan) may be applicable to EMPLOYEE and his Dependents without regard to whether the amendment or alteration was adopted or made before or after the Effective Date, and/or the date EMPLOYEE entered into this Agreement and/or chose not to revoke this Agreement. It is explicitly understood and agreed that a Dependent will lose medical and dental coverage on the earlier of the last day of the month in which EMPLOYEE attains the age of 65 years or until such time as EMPLOYEE has begun new employment, including gainful self-employment (as determined by Unifi in its sole discretion). It is explicitly understood and agreed that no benefits under the Employee Welfare Plan will be provided (including, without limitation, benefits under the portions of the Welfare Benefit Plan that provide benefits in the event of

disability, life insurance coverage, and accidental death and dismemberment coverage) except as specifically provided herein.

SECTION 3B. COBRA, ETC. - It is understood that this Agreement does not waive or abrogate EMPLOYEE'S entitlement to health insurance benefits under COBRA or to vested retirement funds in UNIFI'S retirement plans. Any retirement benefits to which EMPLOYEE is entitled shall be governed by the terms of such retirement plans.

SECTION 4. OTHER BENEFITS AND AGREEMENTS -

- a. UNIFI agrees to provide and pay for all reasonable outplacement services of EMPLOYEE until the sooner of April 30, 2005 or until such time as EMPLOYEE has obtained new employment.
- b. EMPLOYEE agrees that except as specifically set forth in this Agreement no other provision is granted for continued vacation pay, automobile allowance, education renewal, tuition reimbursement, mobile telephone service or other benefits of any nature, type or kind after the Effective Date, and that he will return to UNIFI or any subsidiary or affiliate of UNIFI all company property, documents, notes, software, programs, data and any other materials (including any copies thereof) in his possession. EMPLOYEE does hereby consent and agree that he shall have no other right, claim, demand or interest of any nature, type or kind or commence any type of legal action (including administrative charges or lawsuits) against UNIFI, its subsidiaries or affiliates, and any of their officers, directors, shareholders, representatives, counsel, or agents.

SECTION 5. TAXES - EMPLOYEE will be responsible for any federal, state or local taxes which may be owed by him by virtue of the receipt of any portion of the consideration herein provided.

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SECTION 6. UNVESTED RESTRICTED STOCK AWARDS -EMPLOYEE under the 1999 Unifi, Inc. Long-Term Incentive Plan was awarded on October 21, 1999 5,000 shares of Unifi, Inc. restricted stock and executed a Restricted Stock Agreement in connection with said award ("Restricted Agreement"). The Committee, in exercising its authority under the Plan and contingent on EMPLOYEE fulfilling all his obligations under the term of this Agreement, hereby modifies the Restricted Agreement to provide that the 2,000 unvested shares of restricted stock awarded to EMPLOYEE shall be fully vested as of the Effective Date. All other terms and conditions of the Restricted Agreements shall remain in full force and effect as written. This provision of the Agreement shall be null and void and said 2,000 unvested shares of restricted stock shall lapse under the terms of the Restricted Agreement if EMPLOYEE, in the sole and absolute discretion of UNIFI, does not meet all of his obligations under the term of this Agreement in a timely manner.

SECTION 7. STOCK OPTIONS - EMPLOYEE was granted stock options under Unifi, Inc.'s 1992 Incentive Stock Option Plan, 1996 Non-Qualified Stock Option Plan, 1996 Incentive Stock Option Plan and 1997 Non-Qualified Stock Option Plan. Stock Option Agreements dated October 21, 1993 for 10,000 stock options, September 22, 1994 for 36,830 stock options, April 18, 1995

for 50,000 stock options, April 18, 1996 for 10,000 stock options, October 22, 1998 for 15,000 stock options, April 17, 1997 for 10,000 options, October 22, 1998 for 15,000 stock options, October 21, 1999 for 69,722, October 2, 2001 for 25,000 stock options and January 23, 2002 for 100,000 stock options were entered into in relation to the respective outstanding stock options granted. It is hereby agreed that as long as EMPLOYEE has not breached the terms of this Agreement, that the termination date for all previously vested stock options under the aforesaid Stock Option Agreements shall be modified and amended to mean April 30, 2005, and EMPLOYEE shall have until that date to exercise all such previously vested options. It is further agreed that at such time as EMPLOYEE has paid all amounts due and owing to the Company hereunder (including those amounts due to the Company under Section 8 hereof) any currently unvested options shall vest and shall be exercisable by EMPLOYEE until April 30, 2005. If EMPLOYEE shall breach any of the provisions of this Agreement, all such stock options (whether currently vested or unvested) shall immediately terminate and EMPLOYEE will not be entitled to exercise any of his stock options. The terms of the aforementioned Stock Option Agreements shall hereafter be deemed modified and amended to give effect to this Section 7 and all such stock options shall be deemed and treated as non-qualified stock options. All other terms of said Stock Option Agreements shall continue in full force and effect as previously agreed to.

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SECTION 8. OTHER AGREEMENTS -

- A. PROMISSORY NOTES - EMPLOYEE previously executed Promissory Notes dated October 21, 1999 in the principal amount of \$25,171.88 and December 31, 2000 in the principal amount of \$39,150.00 to UNIFI. The total amount due on said promissory notes of \$65,598.07 (the "Promissory Note Balance") (\$25,171.88 principal and \$510.15 accrued interest from January 1 to April 30, 2003 on the October 21, 1999 promissory note + \$39,150.00 principal and \$766.04 accrued interest from January 1 to April 30, 2003 on the December 31, 2000 promissory note) shall be deducted from the Severance Payment as set forth in Section 1 hereof.
- B. COLLATERAL ASSIGNMENT SPLIT DOLLAR LIFE INSURANCE AGREEMENT EFFECTIVE JANUARY 1, 2000 (the "Collateral Agreement", the terms of which are incorporated herein by reference) - On or before June 30, 2003, EMPLOYEE will:
 - i. Pay UNIFI an amount, as determined by Unifi in its sole discretion, equal to the short-fall in the cash surrender value of the Phoenix Policy (Phoenix Home Life Mutual Insurance Company policy #2764543) (the "Short-fall Payment", being the amount due UNIFI by the EMPLOYEE pursuant to the terms of the Collateral Assignment, the terms of which are incorporated herein by reference) and pursuant to Section 4.2 of the Collateral Agreement, assign to UNIFI all of his interest in the Policy. EMPLOYEE will execute such other and further documentation

as requested by UNIFI (in UNIFI'S sole discretion) as is necessary to transfer any and all interests of EMPLOYEE in the Policy to UNIFI; or

- ii. Pay or cause his new Employer to pay to UNIFI an amount equal to the total aggregate premiums paid by UNIFI on the Phoenix Policy. After receipt of such reimbursement of total aggregate premiums by UNIFI, UNIFI shall assign all of its interests in the Policy and the Split Dollar Agreement to such new employer of EMPLOYEE.

Should EMPLOYEE notify UNIFI on or before June 10, 2003, that he will be obligated to pay UNIFI the Short-fall Payment, UNIFI shall pay to EMPLOYEE as an additional severance payment on the regular payroll date for salaried employees of Unifi in June 2003, an amount equal to the Short-fall Payment as provided in subsection 8.b. above. Such additional severance payment will be grossed up for all applicable federal and state withholding taxes, as determined by UNIFI in its sole discretion, such that the net additional proceeds shall equal the Short-fall Payment.

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C. EXECUTIVE SPLIT DOLLAR LIFE INSURANCE AGREEMENT DATED JULY 1, 1990 (the "Executive Agreement", the terms of which are incorporated herein by reference) - On or before June 30, 2003, EMPLOYEE will:

- i. Pay or cause his new Employer to pay to UNIFI an amount equal to the total aggregate premiums paid by UNIFI on the Pacific Life Policies 0451316490 and 0451625140 [formerly Confederation Life policies 5 131 649 and 5 162 514, respectively]. After receipt of such reimbursement of total aggregate premiums by UNIFI, UNIFI shall assign all of its interests in such Pacific Life Policies and the Executive Agreement to the EMPLOYEE or such new employer of EMPLOYEE; or
- ii. Notify Unifi that he is not going to repay the total aggregate premiums paid by UNIFI on the Pacific Life Policy, but, instead assign to UNIFI all of his interest in said policies. EMPLOYEE will execute such other and further documentation as requested by UNIFI (in UNIFI'S sole discretion) as is necessary to transfer any and all interests of EMPLOYEE in the Pacific Life Policy to UNIFI.

D. SPLIT DOLLAR LIFE INSURANCE AGREEMENT DATED JANUARY 1, 1993 (the "Split Dollar Agreement", the terms of which are incorporated herein by reference) - On or before June 30, 2003, EMPLOYEE will:

- i. Pay or cause his new Employer to pay to UNIFI an amount equal to the total aggregate premiums paid by UNIFI on Pacific Life Policy 0451994000 [formerly Confederation Life policy 5 199 400]. After receipt of

such reimbursement of total aggregate premiums by UNIFI, UNIFI shall assign all of its interests in the Pacific Life Policy No. 2 and the Split Dollar Agreement to the EMPLOYEE or such new employer of EMPLOYEE; or

ii. Notify Unifi that he is not going to repay the total aggregate premiums paid by UNIFI on said Pacific Life Policy, but, instead assign to UNIFI all of his interest in such policy. EMPLOYEE will execute such other and further documentation as requested by UNIFI (in UNIFI'S sole discretion) as is necessary to transfer any and all interests of EMPLOYEE in the Pacific Life Policy No. 2 to UNIFI.

E. COOPERATION - EMPLOYEE agrees to fully cooperate with and assist UNIFI in transitioning his work assignments to others in the Company.

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SECTION 9. DISCLOSURE OF CONFIDENTIAL INFORMATION - EMPLOYEE agrees that:

(A) For a period of five (5) years from the date of this Agreement, he will not disclose or make available to any person or other entity any trade secrets, confidential information, as hereinafter defined, or "know-how" relating to UNIFI'S, its affiliates' and subsidiaries', businesses without written authority from UNIFI'S General Counsel, unless he is compelled to disclose it by judicial process.

CONFIDENTIAL INFORMATION - shall mean all information about UNIFI, its affiliates or subsidiaries, or relating to any of their products or any phase of their operations, not generally known to their competitors or which is not public information, which EMPLOYEE knows or acquired knowledge of during the term of his employment.

(B) DOCUMENTS - under no circumstances shall EMPLOYEE remove from UNIFI'S offices any of UNIFI'S books, records, documents, files, computer discs or information, reports, presentations, customer lists, or any copies of such documents without UNIFI'S written consent, nor shall he make any copies of UNIFI'S books, records, documents, or customer lists for use outside of UNIFI, except as specifically authorized in writing by UNIFI'S General Counsel.

SECTION 10. NON-COMPETE -

(A) EMPLOYEE agrees that for a period of two (2) years from the Effective Date he will not, in a capacity which actually competes with UNIFI, seek employment or consulting arrangements with or offer advice, suggestions, or input to any company, entity or person, which may be construed to be UNIFI'S competitor, and

(B) EMPLOYEE agrees that he will not directly or indirectly, for a period of two (2) years from the Effective Date, own any interest in, other than ownership of less than two percent (2%) of any class of stock of a publicly held corporation, manage, operate, control, be employed by, render advisory services to, act as a consultant to, participate in, assess or be connected with any competitor, as hereinafter defined, in a

capacity which actually competes with Unifi, unless approved by the General Counsel of UNIFI.

COMPETITOR - shall mean any company (incorporated or unincorporated), entity or person engaged, with respect to EMPLOYEE'S employment, in the business of developing, producing, or distributing a product similar to any product produced by UNIFI, its affiliates or subsidiaries, prior to the Effective Date.

SECTION 11. BREACH - EMPLOYEE understands and agrees that UNIFI'S obligation to perform under this Agreement is conditioned upon EMPLOYEE'S covenants and

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promises to UNIFI as set forth herein. In the event EMPLOYEE breaches any such covenants and promises, or causes any such covenants or promises to be breached, UNIFI in its sole and absolute discretion shall have the option to terminate its performance of its obligations under this Agreement, and UNIFI shall have no further liability or obligation to EMPLOYEE. EMPLOYEE acknowledges that compliance with Sections 9 and 10 of this Agreement is necessary to protect UNIFI'S businesses and goodwill; a breach of said paragraph will do irreparable and continual damage to UNIFI and an award of monetary damages would not be adequate to remedy such harm; therefore, in the event he breaches or threatens to breach this Agreement, UNIFI shall be entitled to both a preliminary and permanent injunction in order to prevent the continuation of such harm. Nothing in this Agreement however, shall prohibit UNIFI from also pursuing any other remedies.

SECTION 12. RELEASES AND WAIVERS OF EACH PARTY - The parties hereto agree as follows:

(A) EMPLOYEE hereby fully, completely and unconditionally releases and forever discharges any and all claims, rights, demands, actions, obligations, liabilities, and causes of action of any and every kind, which he or his heirs, personal representatives or assigns ever had, or now have, or hereafter may have (based on events transpiring on or before the Effective Date) against UNIFI, its subsidiaries and affiliates and their respective officers, directors, shareholders, representatives, counsel and agents, in each case past or present, of whatsoever kind and nature, in law, equity or otherwise, arising out of or in any way connected with his employment, association or other involvement or any type, nature and kind with UNIFI. THIS RELEASE AND WAIVER INCLUDES BUT IS NOT LIMITED TO CLAIMS ARISING UNDER FEDERAL, STATE OR LOCAL LAWS PROHIBITING EMPLOYMENT DISCRIMINATION (INCLUDING THE AGE DISCRIMINATION IN EMPLOYMENT ACT, TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, AND THE AMERICAN WITH DISABILITIES ACT) OR CLAIMS GROWING OUT OF ANY LEGAL RESTRICTIONS ON THE COMPANY'S RIGHTS TO TERMINATE ITS EMPLOYEES.

(B) UNIFI hereby fully, completely and unconditionally releases and forever discharges any and all claims, rights, demands, actions, obligations, liabilities, and causes of action of any and every kind, which it, its successors or assigns ever had, or now have, or hereafter may have (based on events transpiring on or before the Effective Date) against EMPLOYEE, his heirs, personal representatives or assigns, in each

case past or present, of whatsoever kind and nature, in law, equity or otherwise, arising out of or in any way connected with his employment, association or other involvement with UNIFI.

- (C) EMPLOYEE ACKNOWLEDGES THAT HE HAS READ AND FULLY UNDERSTANDS THE PROVISIONS OF THIS AGREEMENT, HAS HAD SUFFICIENT TIME TO EVALUATE THE TERMS OF THIS AGREEMENT, HAS BEEN ADVISED TO CONSULT WITH COUNSEL BEFORE SIGNING

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THIS AGREEMENT, AND FREELY AND WITHOUT RESERVATIONS ENTERS INTO THIS AGREEMENT AND THE WAIVERS AND RELEASES CONTAINED HEREIN. EMPLOYEE hereby further acknowledges that in making this Agreement and Release that he understands that he is relying upon his own judgment, belief and knowledge of the extent and nature of said claims and payments or that of his own advisors and expressly acknowledges and confirms that he has not been influenced to any extent whatsoever in making this Agreement and Release by any representations or statements regarding any payments, claims or conditions or regarding any other matters as made by any other person connected with or represented by any of the Parties of this Agreement.

- (D) The Parties hereto agree that this is a compromised settlement of a doubtful and disputed claim or right to act and the payment of the funds herein and the performance of this Agreement shall not be construed as an admission of liability or responsibility on the part of any of the Parties hereto other than expressly provided for herein. This Agreement shall be deemed to be strictly confidential by and between these Parties and by express agreement and understanding this Agreement shall not be deemed, referenced, cited or referred to by the Parties hereto or any other third parties relating to EMPLOYEE'S employment with UNIFI, nor shall this Agreement be used as evidence in any litigation between and among the Parties to this Agreement (or any other third parties) except to establish only between the Parties to this Agreement specifically the terms and conditions set forth therein. Further, the Parties hereby covenant and agree that upon the execution of this document and prior thereto that they have not nor will they in the future discuss with anyone the terms and conditions of this Agreement or anything pertaining to the terms and conditions of this Agreement, the negotiation of the terms and conditions of this Agreement, the settlement terms and conditions of this Agreement or the details of this Agreement, except as required by court order or with the written consent of all parties to this Agreement. Further, all Parties hereto agree that upon receipt of a subpoena or any formal legal request for information covered by or contained in this Agreement that they will as soon as practical notify one another in writing of such pending request to the persons at the addresses set forth herein and that the terms of this Agreement shall remain confidential and shall only be disclosed by any Party hereto as that Party is ordered to do so by a court of competent jurisdiction, or as required for the preparation of any state or federal tax

return.

SECTION 13. WAIVER OF RIGHTS - If, in one or more instances, either Party fails to insist that the other Party perform any of the terms of this Agreement, such failure shall not be construed as a waiver by such Party of any past, present, or future right granted under this Agreement, and the obligations of both Parties under this Agreement shall continue in full force and effect.

SECTION 14. SURVIVAL - Except for a termination of this Agreement by EMPLOYEE within seven days of the execution of this Agreement as set forth in Section 22 of this

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Agreement, the obligations contained in this Agreement shall survive the termination of this Agreement. Additionally, the EMPLOYEE acknowledges that the restrictions and covenants contained in paragraphs 9 and 10 are reasonable and necessary to protect the legitimate business interests of the Company and will not impose an economic hardship on the EMPLOYEE. If any provision of this Agreement is held to be in any respect illegal, invalid or unenforceable under present or future law, such provisions shall be fully severable and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provisions had never comprised a part hereof, and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance here from. Furthermore, in lieu of such illegal, invalid or unenforceable provision, the same shall be reformed and modified automatically to be as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable. In addition, the termination of this Agreement shall not affect any of the rights or obligations of either party arising prior to, or at the time of, the termination of this Agreement, or which may arise by any event causing the termination of this Agreement.

SECTION 15. NOTICES - Any notice required or permitted to be given under this Agreement shall be sufficient, if in writing and if sent by registered or certified mail, postage prepaid, or telecopier to:

EMPLOYEE
G. Alfred Webster
1026 Rockford Road
High Point, NC 27262

and to:

UNIFI
Attn: Charles F. McCoy
7201 W. Friendly Avenue (27410)
P.O. Box 19109
Greensboro, NC 27419-9109
Fax: (336) 856-4364

SECTION 16. ASSIGNMENT - The rights and obligations of UNIFI under this Agreement shall inure to the benefit of and be binding upon its successors and assigns. The rights and obligations of EMPLOYEE under this Agreement shall inure to the benefit of and be binding upon his heirs, personal representative, successors and assigns. This Agreement may not be assigned or otherwise transferred voluntarily or involuntarily by EMPLOYEE.

SECTION 17. ARBITRATION - In the event of any differences of opinion or disputes, between EMPLOYEE and UNIFI, with respect to the construction or interpretation of this Agreement or the alleged breach thereof, which cannot be settled amicably by

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agreement of the Parties, such disputes shall be submitted to and determined by arbitration by a single arbitrator in the City of Greensboro, North Carolina, in accordance with the rules of the American Arbitration Association and judgment upon the award shall be final, binding and conclusive upon the Parties and may be entered in the highest court, state or federal, having jurisdiction.

SECTION 18. APPLICABLE LAW - This Agreement shall be interpreted and construed under the laws of North Carolina.

SECTION 19. ENTIRE AGREEMENT - This Agreement contains the entire agreement of the Parties and supersedes all prior agreements and understandings, oral or written, if any, relating to the EMPLOYEE'S employment and termination of employment with the Company, except that any Confidentiality Agreements that were previously executed by EMPLOYEE before or during the term of his employment with UNIFI remain in full force and effect. If there are any conflicts in the terms of this Agreement and such other Confidentiality Agreements, the terms of this Agreement shall control. This Agreement may not be changed or altered, except by an agreement in writing signed by the Party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

SECTION 20. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original for all purposes and all of which shall be deemed collectively to be one agreement, but in making proof hereof it shall be necessary to exhibit only one such counterpart.

SECTION 21. CONTINUING OBLIGATIONS. EMPLOYEE hereby agrees that he will execute from time to time after the Effective Date any and all such documents, agreements, instruments, certifications, consents, statements, waivers, and/or releases as UNIFI shall request as is necessary to implement and institute the intents and purposes of this Agreement. Additionally, EMPLOYEE acknowledges and agrees that UNIFI shall have the right to set off any obligations owed by EMPLOYEE to UNIFI against the Severance Payment and/or Monthly Payments and other benefits granted to EMPLOYEE by UNIFI under the terms of this Agreement.

SECTION 22. EMPLOYEE'S RIGHT TO REVOKE - NOTWITHSTANDING OTHER PROVISIONS HEREIN TO THE CONTRARY, EMPLOYEE HAS THE RIGHT TO REVOKE THIS AGREEMENT AND ACCEPTANCE OF SEVERANCE PAY PROVIDED HEREIN WITHIN SEVEN (7) DAYS FROM THE DATE EMPLOYEE EXECUTES THIS AGREEMENT. TO EXERCISE THIS RIGHT TO REVOKE, EMPLOYEE MUST NOTIFY THE COMPANY IN WRITING OF HIS DECISION TO REVOKE AS SET FORTH IN SECTION 15 OF THIS AGREEMENT.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement under their respective hands and seals as of the day and year first above written.

EMPLOYEE:

G. ALFRED WEBSTER (Seal)

G. ALFRED WEBSTER

UNIFI, INC.

BY: CHARLES F. MCCOY

CHARLES F. MCCOY
Vice President

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EXHIBIT "A"

RESIGNATION

Pursuant to the terms of an Agreement effective April 30, 2003, by and between UNIFI, INC. (the "Company") (the terms of which Agreement are incorporated herein by reference) and G. ALFRED WEBSTER ("EMPLOYEE"), EMPLOYEE does hereby resign as an employee, officer, director, manager or from any other positions of the Company and/or any of its subsidiaries or affiliates, except EMPLOYEE does not resign as a member of the Unifi, Inc. Board of Directors.

This resignation is effective the 30th day of April 2003.

G. ALFRED WEBSTER (SEAL)

G. ALFRED WEBSTER

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Exhibit (10q)

SEVERANCE AGREEMENT

This SEVERANCE AGREEMENT ("Agreement") effective the 30th day of April, 2003 (the "Effective Date"), by and between UNIFI, INC., a New York corporation (hereinafter referred to as "UNIFI" or the "Company"), and STEWART Q. LITTLE (hereinafter referred to as "EMPLOYEE");

W I T N E S S E T H:

WHEREAS, EMPLOYEE has been employed by UNIFI; and

WHEREAS, the Company and EMPLOYEE have determined that the EMPLOYEE'S employment with the Company will be terminated on the Effective Date under the terms of this Agreement; and

WHEREAS, under the terms set forth in this Agreement, EMPLOYEE and UNIFI agree to settle any and all claims, obligations and/or causes of action that one may have against the other arising from EMPLOYEE'S employment with the Company; and

WHEREAS, EMPLOYEE HEREBY ACKNOWLEDGES THAT HE WAS UNDER NO OBLIGATION WHATSOEVER TO ACCEPT THE TERMS OF THIS AGREEMENT, AND THAT PRIOR TO EXECUTING THIS AGREEMENT HE WAS GIVEN THE OPPORTUNITY TO REQUEST A COPY OF THIS AGREEMENT AND DELAY HIS DECISION WHETHER OR NOT TO ACCEPT THE TERMS OF THIS AGREEMENT FOR UP TO FORTY-FIVE (45) DAYS FOR ANY REASON, INCLUDING TO CONFER WITH ANY LAWYER OR OTHER ADVISOR HE MAY WISH TO CONSULT; and

WHEREAS, EMPLOYEE also acknowledges that he has received a document identifying the job title and age of each employee in his decisional unit, and whether or not each employee was selected for termination.

NOW, THEREFORE, in consideration of these premises and mutual agreements herein contained, and intending to be legally bound hereby, the Parties agree as follows:

SECTION 1. CONSIDERATION - UNIFI agrees to pay EMPLOYEE the sum of five hundred eighty-eight thousand six hundred eight dollars and 06/100 (\$588,608.06) as severance due to termination of his employment with Unifi (the "Severance Payment"). The Promissory Note Balance of \$142,143.49 as set forth in Section 8.a below plus an additional \$63,964.57 in United States and North Carolina withholding taxes on the Promissory Note Balance (i.e. \$142,143.49 x .45) shall be Severance Payment shall be paid to EMPLOYEE in eighteen (18) equal monthly deducted from the Severance Payment to get the resulting balance of severance due to EMPLOYEE of three hundred eighty-two thousand five hundred dollars and

00/100 (\$382,500.00) (the "Resulting Severance Payment"). The Resulting installments of twenty-one thousand two hundred fifty dollars and 00/100 (\$21,250.00) beginning on the regular payroll date for salaried employees of UNIFI in May 2003 and continuing through October 2004 (the "Monthly Payments"). Each such Monthly Payment will be subject to all applicable federal and state taxes. The parties agree that the Company has no prior legal obligation to make the Severance Payment or to provide any of the other benefits set forth in this Agreement to the EMPLOYEE.

SECTION 2. RESIGNATION FROM COMPANY - On the Effective Date, EMPLOYEE

shall execute a written Resignation in the form of Exhibit "A" attached hereto resigning as an employee of the Company.

SECTION 3A.

MEDICAL AND DENTAL INSURANCE - UNIFI will continue to provide EMPLOYEE medical and dental coverage similar to the medical and dental coverages at that time being provided to regular employees covered by the terms of the Unifi, Inc. Employee Welfare Benefit Plan then in effect (the "Medical Plan"), until the earlier of April 30, 2005 or until such time as EMPLOYEE has began new employment, including gainful self-employment (as determined by Unifi in its sole discretion). EMPLOYEE shall be eligible to receive such medical and dental benefits in order that he may obtain coverage for himself and his dependents, as the term "dependent" is defined in the medical plan, so that the following shall apply to coverage of EMPLOYEE and his dependents.

(A) As a condition of coverage of EMPLOYEE, he must pay for each month of coverage an amount equal to the premium paid for such month by an active employee for coverage under the Medical Plan. During the time when Monthly Payments, if any, are being made, such premiums shall be paid by deductions from such installments unless UNIFI in its sole discretion determines otherwise. Thereafter, such premiums shall be due on the first day of the month to which they apply, and the medical and dental coverage shall be terminated unless such premiums are received when due, without any grace period.

(B) As a condition of coverage of a Dependent, EMPLOYEE must pay for each month of coverage an amount equal to the premium paid for such month by any active employee for coverage of a Dependent under the Medical Plan. During the time when Monthly Payments, if any, are being made, such premiums shall be paid by deductions from such installments unless UNIFI in its sole discretion determines otherwise. Thereafter, such premiums shall be due on the first day of the month to which they apply, and the medical and dental coverage shall be terminated unless such premiums are received when due, without any grace period.

(C) The terms of medical and dental coverage for EMPLOYEE and his Dependents at any given time shall be the terms applicable to active employees

and their Dependents at such time. It is explicitly understood and agreed that any amendments to or alteration of the Medical Plan (including any amendment terminating the Medical Plan) may be applicable to EMPLOYEE and his Dependents without regard to whether the amendment or alteration was adopted or made before or after the Effective Date, and/or the date EMPLOYEE entered into this Agreement and/or chose not to revoke this Agreement. It is explicitly understood and agreed that a Dependent will lose medical and dental coverage on the earlier of April 30, 2005 or such time as EMPLOYEE has began new employment, including gainful self-employment (as determined by Unifi in its sole discretion). It is explicitly understood and agreed that no benefits under the Employee Welfare Plan will be provided (including, without limitation, benefits under the portions of the Welfare Benefit Plan that provide benefits in the event of disability, life insurance coverage, and accidental death and dismemberment coverage) except as specifically provided herein.

SECTION 3B. COBRA, ETC. - It is understood that this Agreement does not waive or abrogate EMPLOYEE'S entitlement to health insurance benefits under COBRA or to vested retirement funds in UNIFI'S retirement plans. Any retirement benefits to which EMPLOYEE is entitled shall be governed by the terms of such retirement plans.

SECTION 4. OTHER BENEFITS AND AGREEMENTS -

- a. UNIFI agrees to provide and pay for all reasonable outplacement services of EMPLOYEE until the sooner of April 30, 2005 or until such time as EMPLOYEE has obtained new employment.
- b. EMPLOYEE agrees that except as specifically set forth in this Agreement no other provision is granted for continued vacation pay, automobile allowance, education renewal, tuition reimbursement, mobile telephone service or other benefits of any nature, type or kind after the Effective Date, and that he will return to UNIFI or any subsidiary or affiliate of UNIFI all company property, documents, notes, software, programs, data and any other materials (including any copies thereof) in his possession. EMPLOYEE does hereby consent and agree that he shall have no other right, claim, demand or interest of any nature, type or kind or commence any type of legal action (including administrative charges or lawsuits) against UNIFI, its subsidiaries or affiliates, and any of their officers, directors, shareholders, representatives, counsel, or agents.

SECTION 5. TAXES - EMPLOYEE will be responsible for any federal, state or local taxes which may be owed by him by virtue of the receipt of any portion of the consideration herein provided.

SECTION 6. UNVESTED RESTRICTED STOCK AWARDS -EMPLOYEE under the 1999 Unifi, Inc. Long-Term Incentive Plan was awarded on October 21, 1999 5,000 shares of

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Unifi, Inc. restricted stock and executed a Restricted Stock Agreement in connection with said award ("Restricted Agreement"). The Committee, in exercising its authority under the Plan and contingent on EMPLOYEE fulfilling all his obligations under the term of this Agreement, hereby modifies the Restricted Agreement to provide that the 2,000 unvested shares of restricted stock awarded to EMPLOYEE shall be fully vested as of the Effective Date. All other terms and conditions of the Restricted Agreements shall remain in full force and effect as written. This provision of the Agreement shall be null and void and said 2,000 unvested shares of restricted stock shall lapse under the terms of the Restricted Agreement if EMPLOYEE, in the sole and absolute discretion of UNIFI, does not meet all of his obligations under the term of this Agreement in a timely manner.

SECTION 7. STOCK OPTIONS - EMPLOYEE was granted stock options under Unifi, Inc.'s 1992 Incentive Stock Option Plan, 1996 Non-qualified Stock Option Plan, 1996 Incentive Stock Option Plan and 1999 Long Term Incentive Plan. Stock Option Agreements dated October 21, 1993 for 10,000 stock options, September 22, 1994 for 12,578 stock options, April 18, 1995 for 25,000 stock options, April 18, 1996 for 15,000 stock options, April 17, 1997 for 15,000 stock options, October 22, 1998 for 15,000 stock options, October 21, 1999 for 60,336

options, October 2, 2001 for 15,000 stock options and January 23, 2002 for 50,000 stock options were entered into in relation to the respective outstanding stock options granted. It is hereby agreed that as long as EMPLOYEE has not breached the terms of this Agreement, that the termination date for all previously vested stock options under the aforesaid Stock Option Agreements shall be modified and amended to mean April 30, 2005, and EMPLOYEE shall have until that date to exercise all such previously vested options. It is further agreed that at such time as EMPLOYEE has paid all amounts due and owing to the Company hereunder (including those amounts due to the Company under Section 8 hereof) any currently unvested options shall vest and shall be exercisable by EMPLOYEE until April 30, 2005. If EMPLOYEE shall breach any of the provisions of this Agreement, all such stock options (whether currently vested or unvested) shall immediately terminate and EMPLOYEE will not be entitled to exercise any of his stock options. The terms of the aforementioned Stock Option Agreements shall hereafter be deemed modified and amended to give effect to this Section 7 and all such stock options shall be deemed and treated as non-qualified stock options. All other terms of said Stock Option Agreements shall continue in full force and effect as previously agreed to.

SECTION 8. OTHER AGREEMENTS -

- a. PROMISSORY NOTES - EMPLOYEE previously executed Promissory Notes dated October 21, 1999 in the principal amount of \$25,171.88, October 22, 1999 in the principal amount of \$75,000.00 and December 31, 2000 in the principal amount of \$34,290.51 to UNIFI. The total amount

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due on said promissory notes of \$142,143.49 (the "Promissory Note Balance") (\$25,171.88 principal and \$510.15 accrued interest on the October 21, 1999 promissory note + \$75,000.00 principal, \$4,875.00 accrued interest through December 31, 2002 and \$1,625.00 accrued interest from January 1, to April 30, 2003 on the October 22, 1999 promissory note + 34,290.51 principal and \$670.95 accrued interest on the December 31, 2000 promissory note) shall be deducted from the Severance Payment as set forth in Section 1 hereof.

- b. COLLATERAL ASSIGNMENT SPLIT DOLLAR LIFE INSURANCE AGREEMENT EFFECTIVE JANUARY 1, 2000 (the "Collateral Agreement", the terms of which are incorporated herein by reference) - On or before June 30, 2003, EMPLOYEE will:
- i. Pay UNIFI an amount, as determined by Unifi in its sole discretion, equal to the short-fall in the cash surrender value of the Phoenix Policy (Phoenix Home Life Mutual Insurance Company policy #2764541) (the "Short-fall Payment", being the amount due UNIFI by the EMPLOYEE pursuant to the terms of the Collateral Assignment, the terms of which are incorporated herein by reference) and pursuant to Section 4.2 of the Collateral Agreement, assign to UNIFI all of his interest in the Policy. EMPLOYEE will execute such other and further documentation as requested by UNIFI (in UNIFI'S sole

discretion) as is necessary to transfer any and all interests of EMPLOYEE in the Policy to UNIFI; or

- ii. Pay or cause his new Employer to pay to UNIFI an amount equal to the total aggregate premiums paid by UNIFI on the Phoenix Policy. After receipt of such reimbursement of total aggregate premiums by UNIFI, UNIFI shall assign all of its interests in the Policy and the Split Dollar Agreement to such new employer of EMPLOYEE.

Should EMPLOYEE notify UNIFI on or before June 10, 2003, that he will be obligated to pay UNIFI the Short-fall Payment, UNIFI shall pay to EMPLOYEE as an additional severance payment on the regular payroll date for salaried employees of Unifi in June 2003, an amount equal to the Short-fall Payment as provided in subsection 8.b. above. Such additional severance payment will be grossed up for all applicable federal and state withholding taxes, as determined by UNIFI in its sole discretion, such that the net additional proceeds shall equal the Short-fall Payment.

- c. EXECUTIVE SPLIT DOLLAR LIFE INSURANCE AGREEMENT DATED JULY 1, 1990 (the "Executive Agreement", the terms of which are incorporated herein by reference) - On or before June 30, 2003, EMPLOYEE will:

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- i. Pay or cause his new Employer to pay to UNIFI an amount equal to the total aggregate premiums paid by UNIFI on the Pacific Life Policy [formerly Confederation Life policy #0451625340]. After receipt of such reimbursement of total aggregate premiums by UNIFI, UNIFI shall assign all of its interests in the Pacific Life Policy and the Executive Agreement to the EMPLOYEE or such new employer of EMPLOYEE; or

- ii. Notify Unifi that he is not going to repay the total aggregate premiums paid by UNIFI on the Pacific Life Policy, but, instead assign to UNIFI all of his interest in the Policy. EMPLOYEE will execute such other and further documentation as requested by UNIFI (in UNIFI'S sole discretion) as is necessary to transfer any and all interests of EMPLOYEE in the Pacific Life Policy to UNIFI.

- d. SPLIT DOLLAR LIFE INSURANCE AGREEMENT DATED JANUARY 1, 1993 (the "Split Dollar Agreement", the terms of which are incorporated herein by reference) - On or before June 30, 2003, EMPLOYEE will:

- i. Pay or cause his new Employer to pay to UNIFI an amount equal to the total aggregate premiums paid by UNIFI on the Pacific Life Policy No. 2 [formerly Confederation Life policy #0451993970]. After receipt of such reimbursement of total aggregate premiums by UNIFI, UNIFI shall assign all of its interests in the Pacific Life Policy No. 2

and the Split Dollar Agreement to the
EMPLOYEE or such new employer of EMPLOYEE;
or

ii. Notify Unifi that he is not going to repay the total aggregate premiums paid by UNIFI on the Pacific Life Policy No. 2, but, instead assign to UNIFI all of his interest in the Pacific Life Policy No. 2. EMPLOYEE will execute such other and further documentation as requested by UNIFI (in UNIFI'S sole discretion) as is necessary to transfer any and all interests of EMPLOYEE in the Pacific Life Policy No. 2 to UNIFI.

e. COOPERATION - EMPLOYEE agrees to fully cooperate with and assist UNIFI in transitioning his work assignments to others in the Company.

SECTION 9. DISCLOSURE OF CONFIDENTIAL INFORMATION - EMPLOYEE agrees that:

(A) For a period of five (5) years from the date of this Agreement, he will not disclose or make available to any person or other entity any trade secrets, confidential information, as hereinafter defined, or "know-how" relating to UNIFI'S, its affiliates' and subsidiaries', businesses without written authority

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from UNIFI'S General Counsel, unless he is compelled to disclose it by judicial process.

CONFIDENTIAL INFORMATION - shall mean all information about UNIFI, its affiliates or subsidiaries, or relating to any of their products or any phase of their operations, not generally known to their competitors or which is not public information, which EMPLOYEE knows or acquired knowledge of during the term of his employment.

(B) DOCUMENTS - under no circumstances shall EMPLOYEE remove from UNIFI'S offices any of UNIFI'S books, records, documents, files, computer discs or information, reports, presentations, customer lists, or any copies of such documents without UNIFI'S written consent, nor shall he make any copies of UNIFI'S books, records, documents, or customer lists for use outside of UNIFI, except as specifically authorized in writing by UNIFI'S General Counsel.

SECTION 10. NON-COMPETE -

(A) EMPLOYEE agrees that for a period of two (2) years from the Effective Date he will not, in a capacity which actually competes with UNIFI, seek employment or consulting arrangements with or offer advice, suggestions, or input to any company, entity or person, which may be construed to be UNIFI'S competitor, and

(B) EMPLOYEE agrees that he will not directly or indirectly, for a period of two (2) years from the Effective Date, own any interest in, other than ownership of less than two percent (2%) of any class of stock of a publicly held corporation, manage, operate, control, be employed by, render advisory services to, act as a consultant to, participate in, assess or be connected with any competitor, as hereinafter defined, in a capacity which actually competes with Unifi, unless approved by the General Counsel of UNIFI.

(C) The Severance Payment shall be allocated to this Non-compete Covenant as may be hereafter mutually agreed by EMPLOYEE and UNIFI.

COMPETITOR - shall mean any company (incorporated or unincorporated), entity or person engaged, with respect to EMPLOYEE'S employment, in the business of developing, producing, or distributing a product similar to any product produced by UNIFI, its affiliates or subsidiaries, prior to the Effective Date.

SECTION 11. BREACH - EMPLOYEE understands and agrees that UNIFI'S obligation to perform under this Agreement is conditioned upon EMPLOYEE'S covenants and promises to UNIFI as set forth herein. In the event EMPLOYEE breaches any such covenants and promises, or causes any such covenants or promises to be breached, UNIFI in its sole and absolute discretion shall have the option to

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terminate its performance of its obligations under this Agreement, and UNIFI shall have no further liability or obligation to EMPLOYEE. EMPLOYEE acknowledges that compliance with Sections 9 and 10 of this Agreement is necessary to protect UNIFI'S businesses and goodwill; a breach of said paragraph will do irreparable and continual damage to UNIFI and an award of monetary damages would not be adequate to remedy such harm; therefore, in the event he breaches or threatens to breach this Agreement, UNIFI shall be entitled to both a preliminary and permanent injunction in order to prevent the continuation of such harm. Nothing in this Agreement however, shall prohibit UNIFI from also pursuing any other remedies.

SECTION 12. RELEASES AND WAIVERS OF EACH PARTY - The parties hereto agree as follows:

(A) EMPLOYEE hereby fully, completely and unconditionally releases and forever discharges any and all claims, rights, demands, actions, obligations, liabilities, and causes of action of any and every kind, which he or his heirs, personal representatives or assigns ever had, or now have, or hereafter may have (based on events transpiring on or before the Effective Date) against UNIFI, its subsidiaries and affiliates and their respective officers, directors, shareholders, representatives, counsel and agents, in each case past or present, of whatsoever kind and nature, in law, equity or otherwise, arising out of or in any way connected with his employment, association or other involvement or any type, nature and kind with UNIFI. THIS RELEASE AND WAIVER INCLUDES BUT IS NOT LIMITED TO CLAIMS ARISING UNDER FEDERAL, STATE OR LOCAL LAWS PROHIBITING EMPLOYMENT DISCRIMINATION (INCLUDING THE AGE DISCRIMINATION IN EMPLOYMENT ACT, TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, AND THE AMERICAN WITH DISABILITIES ACT) OR CLAIMS GROWING OUT OF ANY LEGAL RESTRICTIONS ON THE COMPANY'S RIGHTS TO TERMINATE ITS EMPLOYEES.

(B) UNIFI hereby fully, completely and unconditionally releases and forever discharges any and all claims, rights, demands, actions, obligations, liabilities, and causes of action of any and every kind, which it, its successors or assigns ever had, or now have, or

hereafter may have (based on events transpiring on or before the Effective Date) against EMPLOYEE, his heirs, personal representatives or assigns, in each case past or present, of whatsoever kind and nature, in law, equity or otherwise, arising out of or in any way connected with his employment, association or other involvement with UNIFI.

- (C) EMPLOYEE ACKNOWLEDGES THAT HE HAS READ AND FULLY UNDERSTANDS THE PROVISIONS OF THIS AGREEMENT, HAS HAD SUFFICIENT TIME TO EVALUATE THE TERMS OF THIS AGREEMENT, HAS BEEN ADVISED TO CONSULT WITH COUNSEL BEFORE SIGNING THIS AGREEMENT, AND FREELY AND WITHOUT RESERVATIONS ENTERS INTO THIS AGREEMENT AND THE WAIVERS AND RELEASES

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CONTAINED HEREIN. EMPLOYEE hereby further acknowledges that in making this Agreement and Release that he understands that he is relying upon his own judgment, belief and knowledge of the extent and nature of said claims and payments or that of his own advisors and expressly acknowledges and confirms that he has not been influenced to any extent whatsoever in making this Agreement and Release by any representations or statements regarding any payments, claims or conditions or regarding any other matters as made by any other person connected with or represented by any of the Parties of this Agreement.

- (D) The Parties hereto agree that this is a compromised settlement of a doubtful and disputed claim or right to act and the payment of the funds herein and the performance of this Agreement shall not be construed as an admission of liability or responsibility on the part of any of the Parties hereto other than expressly provided for herein. This Agreement shall be deemed to be strictly confidential by and between these Parties and by express agreement and understanding this Agreement shall not be deemed, referenced, cited or referred to by the Parties hereto or any other third parties relating to EMPLOYEE'S employment with UNIFI, nor shall this Agreement be used as evidence in any litigation between and among the Parties to this Agreement (or any other third parties) except to establish only between the Parties to this Agreement specifically the terms and conditions set forth therein. Further, the Parties hereby covenant and agree that upon the execution of this document and prior thereto that they have not nor will they in the future discuss with anyone the terms and conditions of this Agreement or anything pertaining to the terms and conditions of this Agreement, the negotiation of the terms and conditions of this Agreement, the settlement terms and conditions of this Agreement or the details of this Agreement, except as required by court order or with the written consent of all parties to this Agreement. Further, all Parties hereto agree that upon receipt of a subpoena or any formal legal request for information covered by or contained in this Agreement that they will as soon as practical notify one another in writing of such pending request to the persons at the addresses set forth herein and that the terms of this Agreement

shall remain confidential and shall only be disclosed by any Party hereto as that Party is ordered to do so by a court of competent jurisdiction, or as required for the preparation of any state or federal tax return.

SECTION 13. WAIVER OF RIGHTS - If, in one or more instances, either Party fails to insist that the other Party perform any of the terms of this Agreement, such failure shall not be construed as a waiver by such Party of any past, present, or future right granted under this Agreement, and the obligations of both Parties under this Agreement shall continue in full force and effect.

SECTION 14. SURVIVAL - Except for a termination of this Agreement by EMPLOYEE within seven days of the execution of this Agreement as set forth in Section 22 of this Agreement, the obligations contained in this Agreement shall survive the

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termination of this Agreement. Additionally, the EMPLOYEE acknowledges that the restrictions and covenants contained in paragraphs 9 and 10 are reasonable and necessary to protect the legitimate business interests of the Company and will not impose an economic hardship on the EMPLOYEE. If any provision of this Agreement is held to be in any respect illegal, invalid or unenforceable under present or future law, such provisions shall be fully severable and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provisions had never comprised a part hereof, and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance here from. Furthermore, in lieu of such illegal, invalid or unenforceable provision, the same shall be reformed and modified automatically to be as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable. In addition, the termination of this Agreement shall not affect any of the rights or obligations of either party arising prior to, or at the time of, the termination of this Agreement, or which may arise by any event causing the termination of this Agreement.

SECTION 15. NOTICES - Any notice required or permitted to be given under this Agreement shall be sufficient, if in writing and if sent by registered or certified mail, postage prepaid, or telecopier to:

EMPLOYEE
Stewart Q. Little
1833 B-8 Banking St
Greensboro, NC 27408

and to:

UNIFI
Attn: Charles F. McCoy
7201 W. Friendly Avenue (27410)
P.O. Box 19109
Greensboro, NC 27419-9109
Fax: (336) 856-4364

SECTION 16. ASSIGNMENT - The rights and obligations of UNIFI under this Agreement shall inure to the benefit of and be binding upon its successors and assigns. The rights and obligations of EMPLOYEE under this Agreement shall inure to the benefit of

and be binding upon his heirs, personal representative, successors and assigns. This Agreement may not be assigned or otherwise transferred voluntarily or involuntarily by EMPLOYEE.

SECTION 17. ARBITRATION - In the event of any differences of opinion or disputes, between EMPLOYEE and UNIFI, with respect to the construction or interpretation of this Agreement or the alleged breach thereof, which cannot be settled amicably by

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agreement of the Parties, such disputes shall be submitted to and determined by arbitration by a single arbitrator in the City of Greensboro, North Carolina, in accordance with the rules of the American Arbitration Association and judgment upon the award shall be final, binding and conclusive upon the Parties and may be entered in the highest court, state or federal, having jurisdiction.

SECTION 18. APPLICABLE LAW - This Agreement shall be interpreted and construed under the laws of North Carolina.

SECTION 19. ENTIRE AGREEMENT - This Agreement contains the entire agreement of the Parties and supersedes all prior agreements and understandings, oral or written, if any, relating to the EMPLOYEE'S employment and termination of employment with the Company, except that any Confidentiality Agreements that were previously executed by EMPLOYEE before or during the term of his employment with UNIFI remain in full force and effect. If there are any conflicts in the terms of this Agreement and such other Confidentiality Agreements, the terms of this Agreement shall control. This Agreement may not be changed or altered, except by an agreement in writing signed by the Party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

SECTION 20. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original for all purposes and all of which shall be deemed collectively to be one agreement, but in making proof hereof it shall be necessary to exhibit only one such counterpart.

SECTION 21. CONTINUING OBLIGATIONS. EMPLOYEE hereby agrees that he will execute from time to time after the Effective Date any and all such documents, agreements, instruments, certifications, consents, statements, waivers, and/or releases as UNIFI shall request as is necessary to implement and institute the intents and purposes of this Agreement. Additionally, EMPLOYEE acknowledges and agrees that UNIFI shall have the right to set off any obligations owed by EMPLOYEE to UNIFI against the Severance Payment and/or Monthly Payments and other benefits granted to EMPLOYEE by UNIFI under the terms of this Agreement.

SECTION 22. EMPLOYEE'S RIGHT TO REVOKE - NOTWITHSTANDING OTHER PROVISIONS HEREIN TO THE CONTRARY, EMPLOYEE HAS THE RIGHT TO REVOKE THIS AGREEMENT AND ACCEPTANCE OF SEVERANCE PAY PROVIDED HEREIN WITHIN SEVEN (7) DAYS FROM THE DATE EMPLOYEE EXECUTES THIS AGREEMENT. TO EXERCISE THIS RIGHT TO REVOKE, EMPLOYEE MUST NOTIFY THE COMPANY IN WRITING OF HIS DECISION TO REVOKE AS SET FORTH IN SECTION 15 OF THIS AGREEMENT.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement under their respective hands and seals as of the day and year first above written.

EMPLOYEE:

STEWART Q. LITTLE (Seal)

STEWART Q. LITTLE

UNIFI, INC.

BY: CHARLES F. MCCOY

CHARLES F. MCCOY
Vice President

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EXHIBIT "A"

RESIGNATION

Pursuant to the terms of an Agreement effective April 30, 2003, by and between UNIFI, INC. (the "Company") (the terms of which Agreement are incorporated herein by reference) and STEWART Q. LITTLE ("EMPLOYEE"), EMPLOYEE does hereby resign as an employee, officer, director, manager or from any other positions of the Company and/or any of its subsidiaries or affiliates.

This resignation is effective the 30th day of April 2003.

STEWART Q. LITTLE (SEAL)

STEWART Q. LITTLE

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Exhibit (10r)

SEVERANCE AGREEMENT

This SEVERANCE AGREEMENT ("Agreement") effective the 30th day of April, 2003 (the "Effective Date"), by and between UNIFI, INC., a New York corporation (hereinafter referred to as "UNIFI" or the "Company"), and OTTIS LEE GORDON (hereinafter referred to as "EMPLOYEE");

W I T N E S S E T H:

WHEREAS, EMPLOYEE has been employed by UNIFI; and

WHEREAS, the Company and EMPLOYEE have determined that the EMPLOYEE'S employment with the Company will be terminated on the Effective Date under the terms of this Agreement; and

WHEREAS, under the terms set forth in this Agreement, EMPLOYEE and UNIFI agree to settle any and all claims, obligations and/or causes of action that one may have against the other arising from EMPLOYEE'S employment with the Company; and

WHEREAS, EMPLOYEE HEREBY ACKNOWLEDGES THAT HE WAS UNDER NO OBLIGATION WHATSOEVER TO ACCEPT THE TERMS OF THIS AGREEMENT, AND THAT PRIOR TO EXECUTING THIS AGREEMENT HE WAS GIVEN THE OPPORTUNITY TO REQUEST A COPY OF THIS AGREEMENT AND DELAY HIS DECISION WHETHER OR NOT TO ACCEPT THE TERMS OF THIS AGREEMENT FOR UP TO FORTY-FIVE (45) DAYS FOR ANY REASON, INCLUDING TO CONFER WITH ANY LAWYER OR OTHER ADVISOR HE MAY WISH TO CONSULT; and

WHEREAS, EMPLOYEE also acknowledges that he has received a document identifying the job title and age of each employee in his decisional unit, and whether or not each employee was selected for termination.

NOW, THEREFORE, in consideration of these premises and mutual agreements herein contained, and intending to be legally bound hereby, the Parties agree as follows:

SECTION 1. CONSIDERATION - UNIFI agrees to pay EMPLOYEE the sum of four hundred thousand eight dollars and 00/100 (\$400,008.00) as severance due to termination of his employment with Unifi (the "Severance Payment"). The Promissory Note Balance of \$39,448.08 as set forth in Section 8.a below plus an additional \$17,751.64 in United States and North Carolina withholding taxes on the Promissory Note Balance (i.e. \$39,448.08x.45) shall be deducted from the Severance Payment to get the resulting balance of severance due to EMPLOYEE of three hundred sixty thousand five hundred fifty-nine dollars and 92/100 (\$342,808.28) (the "Resulting Severance Payment"). The Resulting Severance Payment shall be paid to EMPLOYEE in twenty (20) equal monthly installments of sixteen

thousand six hundred sixty-seven dollars and 00/100 (\$16,667.00) beginning on the regular payroll date for salaried employees of UNIFI in May 2003

and continuing until December 2004 and one final monthly installment of nine thousand four hundred sixty-eight dollars and 28/100 (\$9,468.28) on the regular payroll date for salaried employees of UNIFI in January 2005 (the "Monthly Payments"). Each such Monthly Payment will be subject to all applicable federal and state taxes. The parties agree that the

Company has no prior legal obligation to make the Severance Payment or to provide any of the other benefits set forth in this Agreement to the EMPLOYEE.

SECTION 2. RESIGNATION FROM COMPANY - On the Effective Date, EMPLOYEE shall execute a written Resignation in the form of Exhibit "A" attached hereto resigning as an employee of the Company.

SECTION 3A. MEDICAL AND DENTAL INSURANCE - UNIFI will continue to provide EMPLOYEE medical and dental coverage similar to the medical and dental coverages at that time being provided to regular employees covered by the terms of the Unifi, Inc. Employee Welfare Benefit Plan then in effect (the "Medical Plan"), until the earlier of the last day of the month in which EMPLOYEE attains the age of 65 years or until such time as EMPLOYEE has began new employment, including gainful self-employment (as determined by Unifi in its sole discretion). EMPLOYEE shall be eligible to receive such medical and dental benefits in order that he may obtain coverage for himself and his dependents, as the term "dependent" is defined in the medical plan, so that the following shall apply to coverage of EMPLOYEE and his dependents.

(A) As a condition of coverage of EMPLOYEE, he must pay for each month of coverage an amount equal to the premium paid for such month by an active employee for coverage under the Medical Plan. During the time when Monthly Payments, if any, are being made, such premiums shall be paid by deductions from such installments unless UNIFI in its sole discretion determines otherwise. Thereafter, such premiums shall be due on the first day of the month to which they apply, and the medical and dental coverage shall be terminated unless such premiums are received when due, without any grace period.

(B) As a condition of coverage of a Dependent, EMPLOYEE must pay for each month of coverage an amount equal to the premium paid for such month by any active employee for coverage of a Dependent under the Medical Plan. During the time when Monthly Payments, if any, are being made, such premiums shall be paid by deductions from such installments unless UNIFI in its sole discretion determines otherwise. Thereafter, such premiums shall be due on the first day of the month to which they apply, and the medical and dental coverage shall be terminated unless such premiums are received when due, without any grace period.

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(C) The terms of medical and dental coverage for EMPLOYEE and his Dependents at any given time shall be the terms applicable to active employees and their Dependents at such time. It is explicitly understood and agreed that any amendments to or alteration of the Medical Plan (including any amendment terminating the Medical Plan) may be applicable to EMPLOYEE and his Dependents without regard to whether the amendment or alteration was adopted or made before or after the Effective Date, and/or the date EMPLOYEE entered into this Agreement and/or chose not to revoke this Agreement. It is explicitly understood and agreed that a Dependent will lose medical and dental coverage on the earlier of the last day of the month in which EMPLOYEE attains the age of 65 years or until such time as EMPLOYEE has began new employment, including gainful self-employment (as determined by Unifi in its sole discretion). It is explicitly understood and agreed that no benefits under the Employee Welfare Plan will be provided

(including, without limitation, benefits under the portions of the Welfare Benefit Plan that provide benefits in the event of disability, life insurance coverage, and accidental death and dismemberment coverage) except as specifically provided herein.

SECTION 3B. COBRA, ETC. - It is understood that this Agreement does not waive or abrogate EMPLOYEE'S entitlement to health insurance benefits under COBRA or to vested retirement funds in UNIFI'S retirement plans. Any retirement benefits to which EMPLOYEE is entitled shall be governed by the terms of such retirement plans.

SECTION 4. OTHER BENEFITS AND AGREEMENTS -

- a. UNIFI agrees to provide and pay for all reasonable outplacement services of EMPLOYEE until the sooner of April 30, 2005 or until such time as EMPLOYEE has obtained new employment.
- b. EMPLOYEE agrees that except as specifically set forth in this Agreement no other provision is granted for continued vacation pay, automobile allowance, education renewal, tuition reimbursement, mobile telephone service or other benefits of any nature, type or kind after the Effective Date, and that he will return to UNIFI or any subsidiary or affiliate of UNIFI all company property, documents, notes, software, programs, data and any other materials (including any copies thereof) in his possession. EMPLOYEE does hereby consent and agree that he shall have no other right, claim, demand or interest of any nature, type or kind or commence any type of legal action (including administrative charges or lawsuits) against UNIFI, its subsidiaries or affiliates, and any of their officers, directors, shareholders, representatives, counsel, or agents.

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SECTION 5. TAXES - EMPLOYEE will be responsible for any federal, state or local taxes which may be owed by him by virtue of the receipt of any portion of the consideration herein provided.

SECTION 6. UNVESTED RESTRICTED STOCK AWARDS -EMPLOYEE under the 1999 Unifi, Inc. Long-Term Incentive Plan was awarded on October 21, 1999 5,000 shares of Unifi, Inc. restricted stock and executed a Restricted Stock Agreement in connection with said award ("Restricted Agreement"). The Committee, in exercising its authority under the Plan and contingent on EMPLOYEE fulfilling all his obligations under the term of this Agreement, hereby modifies the Restricted Agreement to provide that the 2,000 unvested shares of restricted stock awarded to EMPLOYEE shall be fully vested as of the Effective Date. All other terms and conditions of the Restricted Agreements shall remain in full force and effect as written. This provision of the Agreement shall be null and void and said 2,000 unvested shares of restricted stock shall lapse under the terms of the Restricted Agreement if EMPLOYEE, in the sole and absolute discretion of UNIFI, does not meet all of his obligations under the term of this Agreement in a timely manner.

SECTION 7. STOCK OPTIONS - EMPLOYEE was granted stock options under Unifi, Inc.'s 1992 Incentive Stock Option Plan, 1996 Non-qualified Stock Option Plan, 1996 Incentive Stock Option Plan and 1999 Long Term Incentive Plan. Stock Option

Agreements dated November 24, 1993 for 2,500 stock options, September 22, 1994 for 2,500 stock options, October 19, 1995 for 2,500 stock options, April 18, 1996 for 2,500 stock options, April 17, 1997 for 2,500 stock options, October 22, 1998 for 2,500 stock options, October 21, 1999 for 40,224 options, October 2, 2001 for 15,000 stock options and January 23, 2002 for 50,000 stock options were entered into in relation to the respective outstanding stock options granted. It is hereby agreed that as long as EMPLOYEE has not breached the terms of this Agreement, that the termination date for all previously vested stock options under the aforesaid Stock Option Agreements shall be modified and amended to mean April 30, 2005, and EMPLOYEE shall have until that date to exercise all such previously vested options. It is further agreed that at such time as EMPLOYEE has paid all amounts due and owing to the Company hereunder (including those amounts due to the Company under Section 8 hereof) any currently unvested options shall vest and shall be exercisable by EMPLOYEE until April 30, 2005. If EMPLOYEE shall breach any of the provisions of this Agreement, all such stock options (whether currently vested or unvested) shall immediately terminate and EMPLOYEE will not be entitled to exercise any of his stock options. The terms of the aforementioned Stock Option Agreements shall hereafter be deemed modified and amended to give effect to this Section 7 and all such stock options shall be deemed and treated as non-qualified stock options. All other terms of

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said Stock Option Agreements shall continue in full force and effect as previously agreed to.

SECTION 8. OTHER AGREEMENTS -

- a. PROMISSORY NOTES - EMPLOYEE previously executed Promissory Notes dated October 21, 1999 in the principal amount of \$25,171.88 and

December 31, 2000 in the principal amount of \$13,501.86 to UNIFI. The total amount due on said promissory notes of \$39,448.08 (the "Promissory Note Balance") [\$25,171.88 principal and \$510.15 accrued interest on the October 21, 1999 promissory note + 13,501.86 principal and \$264.19 accrued interest on the December 31, 2000 promissory note] shall be deducted from the Severance Payment as set forth in Section 1 hereof.
- b. COLLATERAL ASSIGNMENT SPLIT DOLLAR LIFE INSURANCE AGREEMENT EFFECTIVE JANUARY 1, 2000 (the "Collateral Agreement", the terms of which are incorporated herein by reference) - On or before June 30, 2003, EMPLOYEE will:
 - i. Pay UNIFI an amount, as determined by Unifi in its sole discretion, equal to the short-fall in the cash surrender value of the Phoenix Policy (Phoenix Home Life Mutual Insurance Company policy #2764554) (the "Short-fall Payment", being the amount due UNIFI by the EMPLOYEE pursuant to the terms of the Collateral Assignment, the terms of which are incorporated herein by reference) and pursuant to Section 4.2 of the Collateral Agreement, assign to UNIFI all of his interest in the Policy. EMPLOYEE will execute such other and further documentation

as requested by UNIFI (in UNIFI'S sole discretion) as is necessary to transfer any and all interests of EMPLOYEE in the Policy to UNIFI; or

- ii. Pay or cause his new Employer to pay to UNIFI an amount equal to the total aggregate premiums paid by UNIFI on the Phoenix Policy. After receipt of such reimbursement of total aggregate premiums by UNIFI, UNIFI shall assign all of its interests in the Policy and the Split Dollar Agreement to such new employer of EMPLOYEE.

Should EMPLOYEE notify UNIFI on or before June 10, 2003, that he will be obligated to pay UNIFI the Short-fall Payment, UNIFI shall pay to EMPLOYEE as an additional severance payment on the regular payroll date for salaried employees of Unifi in June 2003, an amount equal to the Short-fall Payment as provided in subsection 8.b. above. Such additional severance payment will be grossed up for all applicable federal and state withholding taxes, as determined by

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UNIFI in its sole discretion, such that the net additional proceeds shall equal the Short-fall Payment.

- c. ASSIGNMENT OF LIFE INSURANCE POLICY AS COLLATERAL DATED JUNE 14, 1983 (the "Assignment Agreement", the terms of which are incorporated herein by reference) - On or before June 30, 2003, EMPLOYEE will:
 - i. Pay or cause his new Employer to pay to UNIFI an amount equal to the total aggregate premiums paid by UNIFI on the Massachusetts Mutual Life Insurance Company Policy #6736109. After receipt of such reimbursement of total aggregate premiums by UNIFI, UNIFI shall assign all of its interests in the Mass Mutual Policy and the Executive Agreement to the EMPLOYEE or such new employer of EMPLOYEE; or
 - ii. Notify Unifi that he is not going to repay the total aggregate premiums paid by UNIFI on the Mass Mutual Policy, but, instead assign to UNIFI all of his interest in the Mass Mutual Policy. EMPLOYEE will execute such other and further documentation as requested by UNIFI (in UNIFI'S sole discretion) as is necessary to transfer any and all interests of EMPLOYEE in the Mass Mutual Policy to UNIFI.
- d. COOPERATION - EMPLOYEE agrees to fully cooperate with and assist UNIFI in transitioning his work assignments to others in the Company.

SECTION 9. DISCLOSURE OF CONFIDENTIAL INFORMATION - EMPLOYEE agrees that:

(A) For a period of five (5) years from the date of this Agreement, he will not disclose or make available to any person or other entity any trade secrets, confidential information, as hereinafter defined, or "know-how" relating to UNIFI'S, its affiliates' and subsidiaries', businesses without

written authority from UNIFI'S General Counsel, unless he is compelled to disclose it by judicial process.

CONFIDENTIAL INFORMATION - shall mean all information about UNIFI, its affiliates or subsidiaries, or relating to any of their products or any phase of their operations, not generally known to their competitors or which is not public information, which EMPLOYEE knows or acquired knowledge of during the term of his employment.

(B) DOCUMENTS - under no circumstances shall EMPLOYEE remove from UNIFI'S offices any of UNIFI'S books, records, documents, files, computer discs or information, reports, presentations, customer lists, or any copies of such documents without UNIFI'S written consent, nor shall he make any copies of

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UNIFI'S books, records, documents, or customer lists for use outside of UNIFI, except as specifically authorized in writing by UNIFI'S General Counsel.

SECTION 10.

NON-COMPETE -

(A) EMPLOYEE agrees that for a period of two (2) years from the Effective Date he will not, in a capacity which actually competes with UNIFI, seek employment or consulting arrangements with or offer advice, suggestions or input to any company, entity or person, which may be construed to be UNIFI'S competitor, and

(B) EMPLOYEE agrees that he will not directly or indirectly, for a period of two (2) years from the Effective Date, own any interest in, other than ownership of less than two percent (2%) of any class of stock of a publicly held corporation, manage, operate, control, be employed by, render advisory services to, act as a consultant to, participate in, assess or be connected with any competitor, as hereinafter defined, in a capacity which actually competes with Unifi, unless approved by the General Counsel of UNIFI.

COMPETITOR - shall mean any company (incorporated or unincorporated), entity or person engaged, with respect to EMPLOYEE'S employment, in the business of developing, producing, or distributing a product similar to any product produced by UNIFI, its affiliates or subsidiaries, prior to the Effective Date.

SECTION 11.

BREACH - EMPLOYEE understands and agrees that UNIFI'S obligation to perform under this Agreement is conditioned upon EMPLOYEE'S covenants and promises to UNIFI as set forth herein. In the event EMPLOYEE breaches any such covenants and promises, or causes any such covenants or promises to be breached, UNIFI in its sole and absolute discretion shall have the option to terminate its performance of its obligations under this Agreement, and UNIFI shall have no further liability or obligation to EMPLOYEE. EMPLOYEE acknowledges that compliance with Sections 9 and 10 of this Agreement is necessary to protect UNIFI'S businesses and goodwill; a breach of said paragraph will do irreparable and continual damage to UNIFI and an award of monetary damages would not be adequate to remedy such harm; therefore, in the event he breaches or threatens to breach this Agreement, UNIFI shall be entitled to both a preliminary and permanent injunction in order to prevent the continuation of such harm. Nothing in this Agreement however, shall prohibit UNIFI from also pursuing any

other remedies.

SECTION 12.

RELEASES AND WAIVERS OF EACH PARTY - The parties hereto agree as follows:

- (A) EMPLOYEE hereby fully, completely and unconditionally releases and forever discharges any and all claims, rights, demands, actions, obligations, liabilities, and causes of action of any and every kind, which he or his heirs, personal

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representatives or assigns ever had, or now have, or hereafter may have (based on events transpiring on or before the Effective Date) against UNIFI, its subsidiaries and affiliates and their respective officers, directors, shareholders, representatives, counsel and agents, in each case past or present, of whatsoever kind and nature, in law, equity or otherwise, arising out of or in any way connected with his employment, association or other involvement or any type, nature and kind with UNIFI. THIS RELEASE AND WAIVER INCLUDES BUT IS NOT LIMITED TO CLAIMS ARISING UNDER FEDERAL, STATE OR LOCAL LAWS PROHIBITING EMPLOYMENT DISCRIMINATION (INCLUDING THE AGE DISCRIMINATION IN EMPLOYMENT ACT, TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, AND THE AMERICAN WITH DISABILITIES ACT) OR CLAIMS GROWING OUT OF ANY LEGAL RESTRICTIONS ON THE COMPANY'S RIGHTS TO TERMINATE ITS EMPLOYEES.

- (B) UNIFI hereby fully, completely and unconditionally releases and forever discharges any and all claims, rights, demands, actions, obligations, liabilities, and causes of action of any and every kind, which it, its successors or assigns ever had, or now have, or hereafter may have (based on events transpiring on or before the Effective Date) against EMPLOYEE, his heirs, personal representatives or assigns, in each case past or present, of whatsoever kind and nature, in law, equity or otherwise, arising out of or in any way connected with his employment, association or other involvement with UNIFI.

- (C) EMPLOYEE ACKNOWLEDGES THAT HE HAS READ AND FULLY UNDERSTANDS THE PROVISIONS OF THIS AGREEMENT, HAS HAD SUFFICIENT TIME TO EVALUATE THE TERMS OF THIS AGREEMENT, HAS BEEN ADVISED TO CONSULT WITH COUNSEL BEFORE SIGNING THIS AGREEMENT, AND FREELY AND WITHOUT RESERVATIONS ENTERS INTO THIS AGREEMENT AND THE WAIVERS AND RELEASES CONTAINED HEREIN. EMPLOYEE hereby further acknowledges that in making this Agreement and Release that he understands that he is relying upon his own judgment, belief and knowledge of the extent and nature of said claims and payments or that of his own advisors and expressly acknowledges and confirms that he has not been influenced to any extent whatsoever in making this Agreement and Release by any representations or statements regarding any payments, claims or conditions or regarding any other matters as made by any other person connected with or represented by any of the Parties of this Agreement.

(D) The Parties hereto agree that this is a compromised settlement of a doubtful and disputed claim or right to act and the payment of the funds herein and the performance of this Agreement shall not be construed as an admission of liability or responsibility on the part of any of the Parties hereto other than expressly provided for herein. This Agreement shall be deemed to be strictly confidential by and between these Parties and by express agreement and understanding this

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Agreement shall not be deemed, referenced, cited or referred to by the Parties hereto or any other third parties relating to EMPLOYEE'S employment with UNIFI, nor shall this Agreement be used as evidence in any litigation between and among the Parties to this Agreement (or any other third parties) except to establish only between the Parties to this Agreement specifically the terms and conditions set forth therein. Further, the Parties hereby covenant and agree that upon the execution of this document and prior thereto that they have not nor will they in the future discuss with anyone the terms and conditions of this Agreement or anything pertaining to the terms and conditions of this Agreement, the negotiation of the terms and conditions of this Agreement, the settlement terms and conditions of this Agreement or the details of this Agreement, except as required by court order or with the written consent of all parties to this Agreement. Further, all Parties hereto agree that upon receipt of a subpoena or any formal legal request for information covered by or contained in this Agreement that they will as soon as practical notify one another in writing of such pending request to the persons at the addresses set forth herein and that the terms of this Agreement shall remain confidential and shall only be disclosed by any Party hereto as that Party is ordered to do so by a court of competent jurisdiction, or as required for the preparation of any state or federal tax return.

SECTION 13. WAIVER OF RIGHTS - If, in one or more instances, either Party fails to insist that the other Party perform any of the terms of this Agreement, such failure shall not be construed as a waiver by such Party of any past, present, or future right granted under this Agreement, and the obligations of both Parties under this Agreement shall continue in full force and effect.

SECTION 14. SURVIVAL - Except for a termination of this Agreement by EMPLOYEE within seven days of the execution of this Agreement as set forth in Section 22 of this Agreement, the obligations contained in this Agreement shall survive the termination of this Agreement. Additionally, the EMPLOYEE acknowledges that the restrictions and covenants contained in paragraphs 9 and 10 are reasonable and necessary to protect the legitimate business interests of the Company and will not impose an economic hardship on the EMPLOYEE. If any provision of this Agreement is held to be in any respect illegal, invalid or unenforceable under present or future law, such provisions shall be fully severable and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provisions had never comprised a part hereof, and the remaining provisions hereof shall remain in full force and

effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance here from. Furthermore, in lieu of such illegal, invalid or unenforceable provision, the same shall be reformed and modified automatically to be as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable. In addition, the termination of this Agreement shall not affect any of the rights or obligations of either party arising prior to, or at the time of, the termination of this

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Agreement, or which may arise by any event causing the termination of this Agreement.

SECTION 15. NOTICES - Any notice required or permitted to be given under this Agreement shall be sufficient, if in writing and if sent by registered or certified mail, postage prepaid, or telecopier to:

EMPLOYEE
Lee Gordon
7072 Mcleansville Rd
Brown Summit, NC 27214

and to:

UNIFI
Attn: Charles F. McCoy
7201 W. Friendly Avenue (27410)
P.O. Box 19109
Greensboro, NC 27419-9109
Fax: (336) 856-4364

SECTION 16. ASSIGNMENT - The rights and obligations of UNIFI under this Agreement shall inure to the benefit of and be binding upon its successors and assigns. The rights and obligations of EMPLOYEE under this Agreement shall inure to the benefit of and be binding upon his heirs, personal representative, successors and assigns. This Agreement may not be assigned or otherwise transferred voluntarily or involuntarily by EMPLOYEE.

SECTION 17. ARBITRATION - In the event of any differences of opinion or disputes, between EMPLOYEE and UNIFI, with respect to the construction or interpretation of this Agreement or the alleged breach thereof, which cannot be settled amicably by agreement of the Parties, such disputes shall be submitted to and determined by arbitration by a single arbitrator in the City of Greensboro, North Carolina, in accordance with the rules of the American Arbitration Association and judgment upon the award shall be final, binding and conclusive upon the Parties and may be entered in the highest court, state or federal, having jurisdiction.

SECTION 18. APPLICABLE LAW - This Agreement shall be interpreted and construed under the laws of North Carolina.

SECTION 19. ENTIRE AGREEMENT - This Agreement contains the entire agreement of the Parties and supersedes all prior agreements and understandings, oral or written, if any, relating to the EMPLOYEE'S employment and termination of employment with the Company, except that any Confidentiality Agreements that were previously executed by EMPLOYEE before or during the term of his employment with UNIFI remain in full force and effect. If there are any conflicts in the terms of this Agreement and

such other Confidentiality Agreements, the terms of this

Agreement shall control. This Agreement may not be changed or altered, except by an agreement in writing signed by the Party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

SECTION 20. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original for all purposes and all of which shall be deemed collectively to be one agreement, but in making proof hereof it shall be necessary to exhibit only one such counterpart.

SECTION 21. CONTINUING OBLIGATIONS. EMPLOYEE hereby agrees that he will execute from time to time after the Effective Date any and all such documents, agreements, instruments, certifications, consents, statements, waivers, and/or releases as UNIFI shall request as is necessary to implement and institute the intents and purposes of this Agreement. Additionally, EMPLOYEE acknowledges and agrees that UNIFI shall have the right to set off any obligations owed by EMPLOYEE to UNIFI against the Severance Payment and/or Monthly Payments and other benefits granted to EMPLOYEE by UNIFI under the terms of this Agreement.

SECTION 22. EMPLOYEE'S RIGHT TO REVOKE - NOTWITHSTANDING OTHER PROVISIONS HEREIN TO THE CONTRARY, EMPLOYEE HAS THE RIGHT TO REVOKE THIS AGREEMENT AND ACCEPTANCE OF SEVERANCE PAY PROVIDED HEREIN WITHIN SEVEN (7) DAYS FROM THE DATE EMPLOYEE EXECUTES THIS AGREEMENT. TO EXERCISE THIS RIGHT TO REVOKE, EMPLOYEE MUST NOTIFY THE COMPANY IN WRITING OF HIS DECISION TO REVOKE AS SET FORTH IN SECTION 15 OF THIS AGREEMENT.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under their respective hands and seals as of the day and year first above written.

EMPLOYEE:

OTTIS LEE GORDON (Seal)

OTTIS LEE GORDON

UNIFI, INC.

BY: CHARLES F. MCCOY

CHARLES F. MCCOY
Vice President

EXHIBIT "A"

RESIGNATION

Pursuant to the terms of an Agreement effective April 30, 2003, by and between UNIFI, INC. (the "Company") (the terms of which Agreement are incorporated herein by reference) and OTTIS LEE GORDON ("EMPLOYEE"), EMPLOYEE does hereby resign as an employee, officer, director, manager or from any other positions of the Company and/or any of its subsidiaries or affiliates.

This resignation is effective the 30th day of April 2003.

OTTIS LEE GORDON (SEAL)

OTTIS LEE GORDON

Exhibit (21)

UNIFI, INC.

SUBSIDIARIES

Name	Address	Incorporation	Unifi Percentage of Voting Securities Owned
Unifi Textured Yarns Europe, Ltd.	Letterkenny, Ireland	Ireland	100%
Unifi Dyed Yarns, Ltd.	Manchester, England	United Kingdom	100%
Unifi International Services, Inc.	Warwickshire, England	North Carolina	100%
Unifi International Services Europe	Lyon, France	France	100%
Unifi GmbH	Oberkotzau, Germany	Germany	100%
Unifi Italia, S.r.l.	Viale Andreis, Italy	Italy	100%
Unifi Manufacturing, Inc. ("UMI")	Greensboro, NC	North Carolina	100%
Unifi Sales & Distribution, Inc. ("USD")	Greensboro, NC	North Carolina	100%
Unifi Manufacturing Virginia, LLC	Greensboro, NC	North Carolina	95% 5% - UMI
Unifi Export Sales, LLC	Greensboro, NC	North Carolina	95% 5% - UMI
Unifi-SANS Technical Fiber, LLC	Madison, NC	North Carolina	50% - UMI 50% - SANS Fibers, Inc.
Unifi Technical Fabrics, LLC	Mocksville, NC	North Carolina	100%
Charlotte Technology Group, Inc.	Charlotte, NC	North Carolina	100% USD
Unifi Textured Polyester, LLC	Greensboro, NC	North Carolina	85.42% - UMI 14.58% - Burlington Industries, Inc.
Unifi do Brasil, Ltda	San Paulo, Brazil	Brazil	100%
Spanco Industries, Inc. ("SI")	Greensboro, NC	North Carolina	100% - UMI

[SI owns: 100% Spanco International, Inc., ("SII"), a North Carolina corporation]

[SII owns: 83% Unifi Latin America, S.A., a Columbian sociedad anonime; the remainder of Spanco Latin America is presently owned by:
1% Unifi designees
16% Spanco - Panama, S.A.]

Exhibit (23a)

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-23201) pertaining to the Unifi, Inc. 1982 Incentive Stock Option Plan and the 1987 Non-Qualified Stock Option Plan and the Registration Statement (Form S-8 No. 33-53799) pertaining to the Unifi, Inc. 1992 Incentive Stock Option Plan and Unifi Spun Yarns, Inc. 1992 Employee Stock Option Plan, and the Registration Statement (Form S-8 No. 333-35001) pertaining to the Unifi, Inc. 1996 Incentive Stock Option Plan and the Unifi, Inc. 1996 Non-Qualified Stock Option Plan and the Registration Statement (Form S-8 No. 333-43158) pertaining to the Unifi, Inc. 1999 Long-Term Incentive Plan of our report dated July 17, 2003, with respect to the consolidated financial statements and schedule of Unifi, Inc. included in this Annual Report (Form 10-K) for the year ended June 29, 2003.

/s/ Ernst & Young LLP

Greensboro, North Carolina
September 22, 2003

Exhibit (23b)

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-23201) pertaining to the Unifi, Inc. 1982 Incentive Stock Option Plan and the 1987 Non-Qualified Stock Option Plan and the Registration Statement Form S-8 (No. 33-53799) pertaining to the Unifi, Inc. 1992 Incentive Stock Option Plan and Unifi Spun Yarns, Inc. 1992 Employee Stock Option Plan, and the Registration Statement Form S-8 (No. 333-35001) pertaining to the Unifi, Inc. 1996 Incentive Stock Option Plan and the Unifi, Inc. 1996 Non-Qualified Stock Option Plan and the Registration Statement Form S-8 (No. 333-43158) pertaining to the Unifi, Inc. 1999 Long-Term Incentive Plan of Unifi, Inc. of our report dated February 27, 2003, relating to the consolidated financial statements of Parkdale America, LLC and Subsidiary, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina
September 20, 2003

Exhibit (31a)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian R. Parke, certify that:

1. I have reviewed this annual report on Form 10-K 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)) 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) 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

c) 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: September 22, 2003

/s/ BRIAN R. PARKE

BRIAN R. PARKE
CHIEF EXECUTIVE OFFICER

Exhibit (31b)

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert J. Kocourek, certify that:

1. I have reviewed this annual report on Form 10-K 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)) 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) 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

c) 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: September 22, 2003

/s/ ROBERT J. KOCOUREK

ROBERT J. KOCOUREK
CHIEF FINANCIAL OFFICER

Exhibit (32a)

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") Annual Report on Form 10-K for the period ended June 29, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian R. Parke, 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: September 22, 2003

By: /s/ BRIAN R. PARKE

Brian R. Parke
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Unifi, Inc. and will be retained by Unifi, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit (32b)

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") Annual Report on Form 10-K for the period ended June 29, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert J. Kocourek, 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: September 22, 2003

By: /s/ ROBERT J. KOCOUREK

Robert J. Kocourek
Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Unifi, Inc. and will be retained by Unifi, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.