
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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 30, 2002 — 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.)

7201 West Friendly Avenue
Greensboro, North Carolina
(Address of principal executive offices)

27410
(Zip code)

(Registrant's telephone no., including area code): **(336) 294-4410**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.10 per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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.

Aggregate market value of the voting stock held by non-affiliates of the registrant as of September 4, 2002 based on a closing price of \$8.00 per share: \$398,115,568.

Number of shares outstanding as of September 4, 2002: 53,850,841

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 23, 2002, are incorporated by reference into Part III.

Exhibits, Financial Statement Schedules and Reports on Form 8-K index is located on pages 54 through 56.

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 one of the largest and most diversified producers and processors of textile yarns in the world. The Company is primarily engaged in the processing of synthetic yarns in two primary 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, Alliances 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 and alliances.

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 2 “Acquisitions, Alliances and Divestures” of this Report for further information.

See Part I, Item 3. “Legal Proceedings” for further discussion regarding the status of ongoing arbitration matters involving this 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 Yادkinville). 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, Bayer AG and Dow Chemical for our Irish operation.

The primary suppliers of POY to the Company's nylon segment are DuPont, Universal Premier Fibers LLC (formerly Cookson Fibers, Inc.), and U.N.F. Industries Ltd (U.N.F) with the majority of the Company's nylon POY being supplied by DuPont and U.N.F. 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 25.0 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 30, 2002, sold its polyester yarns to approximately 1,565 customers and its nylon yarns to approximately 200 customers. Neither the polyester reporting segment or the nylon reporting segment had sales to any one customer in fiscal year 2002 either individually or combined (for shared customers) in excess of 10% of the Company's consolidated revenues.

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. The Company does not believe that the loss of any one customer in our nylon segment would result in a materially adverse effect on that segment.

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. and Milliken & Company and in the sale of nylon yarns major domestic competitors are Jefferson Mills, 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 of the Company 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 5,200.

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.

Item 2. Properties

The Company currently maintains a total of 19 manufacturing and warehousing facilities, one central distribution center and one recycling center in North Carolina; one manufacturing and one warehousing facility in Staunton, Virginia; one central distribution center in Fort Payne, Alabama; four manufacturing operations in Letterkenny, County of Donegal, Republic of Ireland; two warehousing locations in Carrickfergus, Ireland; one manufacturing, one warehousing and one office building in Brazil and one manufacturing and administration building in Manchester, England. All of these facilities, which contain approximately 8.2 million square feet of floor space 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 Brazil and the plant and office location in Manchester, England; and management believes they are in good condition, well maintained, and are suitable and adequate for present utilization.

The polyester segment of the Company's business uses 17 manufacturing, six warehousing and one dedicated office totaling approximately 5.5 million square feet. The nylon segment of the Company's business utilizes four manufacturing and four warehousing facilities aggregating approximately 2.4 million square feet.

The Company leases sales offices and/or apartments in New York; Coleshill, England; Oberkotzau, Germany; Lyon, France Desenzano, Italy, and Hong Kong, China.

The Company also leased its corporate headquarters building at 7201 West Friendly Avenue, Greensboro, North Carolina, which consists of a building containing approximately 121,125 square feet located on a tract of land containing approximately 8.99 acres, until August 30, 2002, at which time it was purchased at fair market value. Until this facility and related land was purchased, it was leased from Merrill Lynch Trust Company of North Carolina, Trustee under the Unifi, Inc. Retirement Savings Plan, and Wachovia Bank & Trust Company, N.A., independent trustee. See the related information included in Footnote 8 "Leases and Commitments" of this Report. 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 below 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 is seeking damages, that, based on the claims made to date, could amount to approximately \$23.0 million, injunctive relief and, absent a satisfactory cure by Unifi, a declaratory judgment that the Company is 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 of \$300 million to \$600 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.

The arbitration is currently proceeding in the discovery phase with the arbitration hearing set for November 2002. The Company continues to deny DuPont's allegations and intends to vigorously defend against DuPont's claims and pursue its counterclaims. However, the outcomes of these claims are uncertain at this time and the Company is not making any assurances as to the outcome thereof.

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 30, 2002.

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. 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 2001:		
First quarter ended September 24, 2000	\$13.38	\$10.31
Second quarter ended December 24, 2000	\$10.38	\$7.13
Third quarter ended March 25, 2001	\$9.31	\$6.25
Fourth quarter ended June 24, 2001	\$8.33	\$5.65
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

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 four fiscal years. The Company does not anticipate paying any dividends in the foreseeable future.

As of September 4, 2002, there were approximately 684 record holders of the Company's common stock. The number of record holders is based upon the actual number of holders registered and does not include holders of shares in "street names" or other shares maintained by depository trust companies for persons, partnerships, associations, corporations or other entities.

Item 6. Selected Financial Data

	June 30, 2002 (53 Weeks)	June 24, 2001 (52 Weeks)	June 25, 2000 (52 Weeks)	June 27, 1999 (52 Weeks)	June 28, 1998 (52 Weeks)
(Amounts in thousands, except per share data)					
Summary of Operations:					
Net sales	\$ 914,716	\$ 1,131,157	\$ 1,291,435	\$ 1,262,278	\$ 1,390,497
Cost of sales	840,164	1,034,044	1,127,864	1,087,728	1,162,726
Gross profit	74,552	97,113	163,571	174,550	227,771
Selling, general and administrative expense	51,093	62,786	58,063	55,338	43,277
Provision for bad debts	6,285	8,202	8,694	1,129	724
Interest expense	22,956	30,123	30,294	27,459	16,598
Interest income	(2,559)	(2,549)	(2,772)	(2,399)	(1,869)
Other (income) expense	3,239	8,077	1,052	440	(335)
Equity in (earnings) losses of unconsolidated affiliates	1,704	(2,930)	2,989	(4,214)	(23,030)
Minority interest	—	2,590	9,543	9,401	723
Alliance plant closure costs	—	15,000	—	—	—
Asset impairments and write downs	—	24,541	—	—	—
Employee severance and related charges	—	7,545	—	—	—
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	(8,166)	(56,272)	55,708	87,396	191,683
Provision (benefit) for income taxes	(2,092)	(11,598)	17,675	28,369	62,782
Income (loss) before cumulative effect of accounting change	(6,074)	(44,674)	38,033	59,027	128,901
Cumulative effect of accounting change, net of tax	37,851	—	—	2,768	4,636
Net income (loss)	\$ (43,925)	\$ (44,674)	\$ 38,033	\$ 56,259	\$ 124,265
Per Share of Common Stock:					
Income (loss) before cumulative effect of accounting change (diluted)	\$ (.11)	\$ (.83)	\$.65	\$.97	\$ 2.08
Cumulative effect of accounting change (diluted)	(.71)	—	—	(.04)	(.07)
Net income (loss) (diluted)	\$ (.82)	\$ (.83)	\$.65	\$.93	\$ 2.01
Cash Dividends	\$ —	\$ —	\$ —	\$ —	\$.56
Financial Data:					
Working capital	\$ 161,542	\$ 66,038	\$ 15,604	\$ 216,897	\$ 209,878
Gross property, plant and equipment	1,179,770	1,209,927	1,250,470	1,231,013	1,145,622
Total assets	1,003,697	1,137,319	1,354,764	1,365,840	1,333,814
Long-term debt and other obligations	280,267	259,188	261,830	478,898	458,977
Shareholders' equity	498,040	540,543	622,438	646,138	636,197

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 years 1999 and 1998 involved the write-off of previously capitalized reengineering costs associated with software development and the write-off of certain start-up costs, respectively.

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 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	\$ 19,757	\$ 4,757	\$ —	\$ 24,514
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)	\$ 28,430	\$ 7,392	\$ (1,859)	\$ 33,963

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 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, Alliances 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 is primarily 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 current 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 prior year 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. (the "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 current 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. 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 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. After the first five years, earnings and cash flows of UTP will be allocated based on ownership percentages.

The Company recognized a tax benefit in the current year, 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 current 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 the current year after the cumulative effect of accounting change was \$43.9 million or \$(.82) per diluted share.

Review of Fiscal Year 2001 Results of Operations (52 Weeks) Compared to Fiscal Year 2000 (52 Weeks)

Following is a summary of operating income by segment for fiscal years 2001 and 2000, as reported regularly to the Company's management:

	Polyester	Nylon	All Other	Total
	(Amounts in thousands)			
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)	\$ 28,430	\$ 7,392	\$ (1,859)	\$ 33,963
Fiscal 2000:				
Net sales	\$861,865	\$409,841	\$ 31,917	\$1,303,623
Cost of sales	757,580	353,739	21,024	1,132,343
Selling, general and administrative	37,713	15,103	9,952	62,768
Segment operating income	\$ 66,572	\$ 40,999	\$ 941	\$ 108,512

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

In fiscal 2001, polyester net sales decreased \$70.6 million, or 8.2% compared to fiscal 2000. The decrease from fiscal year 2000 was primarily attributable to reduced volumes both in the United States and internationally. The importation of fabric and apparel eroded our customers' business and the slowing economy prompted our customers to reduce inventories in response to lower retail orders. Unit prices, based on product mix, were favorable to the prior year. However, volumes were down approximately 10% from fiscal 2000 to fiscal 2001. Sales volume for all of our international polyester operations was down in fiscal 2001 compared to fiscal 2000, with the exception of our European dyeing operation acquired in the fourth quarter of the prior year. The currency exchange rate change from the prior year to the current year adversely effected sales translated to U.S. dollars for our Irish and Brazilian operations.

Gross profit on sales for our polyester operations declined \$38.4 million over fiscal year 2000. Gross margin (gross profit as a percentage of net sales) declined from 12.1% in fiscal year 2000 to 8.3% in fiscal year 2001. Gross margin in fiscal 2001 declined primarily as a function of higher per unit raw material prices and fixed manufacturing costs relative to a lower sales base.

Selling, general and administrative expenses for this segment declined \$0.3 million from 2000 to 2001. This decrease was accomplished mainly due to the cost cutting initiatives implemented at the end of the third quarter and were achieved despite having only three months of selling, general and administrative expenses for our European dye-house in the prior year.

Nylon Operations

Nylon net sales decreased \$94.7 million, or 23.1% in fiscal 2001 compared to fiscal 2000. Unit volumes for fiscal 2001 decreased by 15.2%, while average sales prices, based on product mix, decreased 9.2%. The reductions in sales volume and price were primarily attributable to the continuing softness of the ladies hosiery market, a slow down in seamless apparel and the sluggishness of the economy in general.

Nylon gross profit decreased \$34.1 million and gross margin decreased from 13.7% in 2000 to 7.0% in 2001. This was primarily attributable to the lower sales volumes and prices and higher per unit fixed manufacturing costs, offset, in part, by lower average fiber prices per pound.

Selling, general and administrative expense for the nylon segment decreased \$0.5 million in fiscal 2001. This reduction was due mainly to the cost cutting initiatives implemented at the end of the third fiscal quarter.

All Other

The "All Other" segment primarily reflects the Company's majority owned subsidiary, UTG established in May 1999. UTG was a domestic automation solutions provider. This entity was in place for effectively the entire 2001 fiscal year. However 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 higher selling, general and administrative expenses in fiscal year 2001 reflect additional costs incurred in early terminating certain office leases in the second fiscal quarter. The remaining UTG operations conduct business under the name Cimtec Automation, Inc. and involve the sale and repair of certain computer hardware, until it was sold in fiscal year 2002.

Consolidated Operations

For the year ended June 24, 2001, the Company recorded an \$8.2 million provision for bad debts in response to continued difficult industry conditions, compared to an \$8.7 million provision recorded in the prior year.

Interest expense decreased slightly from \$30.3 million in fiscal 2000 to \$30.1 million in fiscal 2001. The weighted average interest rate of debt outstanding at June 24, 2001 was 6.1%. Interest income remained consistent between 2001 and 2000.

Other expense increased from \$1.1 million in 2000 to \$8.1 million in 2001. This loss for 2001 included \$9.5 million in losses for foreign currency related transactions including a loss of \$4.7 million on foreign currency derivative contracts denominated in Euro for which hedge accounting was terminated upon the cancellation of the proposed project. These losses 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.

Earnings (losses) from our equity affiliates, Parkdale America, LLC. (the "LLC"), Micell Technologies, Inc. ("Micell"), UNIFI-SANS Technical Fibers, LLC ("UNIFI-SANS") and U.N.F. Industries, Ltd. ("U.N.F.") totaled \$2.9 million in fiscal 2001 compared with \$(3.0) million in fiscal 2000. The increase in earnings is primarily attributable to improved earnings of the LLC and the recognition of reduced losses for Micell.

Minority interest expense for fiscal 2001 was \$2.6 million compared to \$9.5 million in the prior year. This charge primarily relates to the minority interest share of the earnings of Unifi Textured Polyester, LLC ("UTP") formed with Burlington Industries on May 29, 1998. Unifi, Inc. has an 85.42% ownership interest in this entity and Burlington has a 14.58% interest. 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. After the first five years, earnings and cash flows of UTP will be allocated based on ownership percentages.

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, one of DuPont's facilities involved in the manufacturing alliance between DuPont and Unifi. The Alliance was formed to integrate each company's polyester partially oriented yarn (POY) manufacturing facilities into a single production unit and is expected 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 a \$15.0 million charge for its 50% share of the severance and costs to dismantle the facility. Unifi's

share of the cost to close this facility will be paid over the eighteen-month period commencing July 2001 and ending December 2002. Subsequent to the shut down, the Company will receive from DuPont cash distributions for its 50% share of the cash fixed costs eliminated as a result of the Cape Fear shut down and its share of other expected costs savings and synergies from the Alliance.

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 were 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 were 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 medical and dental benefits for former employees no longer providing services to the Company and provisions for certain consultant agreements for which no future benefits were anticipated.

The charge for impairment and other write-down of assets included \$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 are held for sale. It was anticipated at the time the charge was recorded that the remaining non-core assets and business would be sold prior to the end of calendar 2001, which was accomplished by the end of 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 and lack of competitiveness of these businesses.

The Company recognized a tax benefit in fiscal year 2001 at a 20.6% effective tax rate compared to an effective tax rate on the consolidated provision recorded in fiscal 2000 at 31.7%. The difference between the statutory and effective tax rate in fiscal 2001 is primarily due to the fact that substantially no tax benefit was recognized on losses sustained by foreign subsidiaries, because the recoverability of such tax benefits through loss carryforward or carryback was not assured.

As a result of the above, the Company realized a net loss of \$44.7 million for fiscal year 2001, or \$(.83) per diluted share, compared to net income in fiscal year 2000 of \$38.0 million, or \$.65 per diluted share.

Liquidity and Capital Resources

Cash generated from operations was \$89.7 million for fiscal 2002, compared to \$151.6 million for fiscal 2001. The primary sources of cash from operations in 2002 were the net loss of \$43.9 million adjusted for non-cash adjustments of \$129.9 million. Depreciation and amortization of \$78.7 million, the provision for bad debt and quality claims of \$12.1 million, non-cash compensation of \$1.2 million and the cumulative effect of accounting change, net of tax, of \$37.9 million related to the write-off of goodwill were the primary components of the non-cash adjustments. Other significant sources of cash from operations were reduced receivables and inventories of \$13.8 million and \$9.9 million, respectively, increased income tax and deferred tax liabilities of \$7.4 million and \$4.8 million, respectively, offset by a decrease of accounts payable and accruals of \$36.9 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 30, 2002 was \$161.5 million. Working capital at June 24, 2001, of \$66.0 million reflected 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 renegotiation or refinancing of these obligations, which occurred on December 7, 2001, as further discussed below.

The Company utilized \$21.2 million for net investing activities and \$55.7 million for net financing activities during fiscal 2002. Significant expenditures during this period included \$10.4 million for upgrading facilities and equipment and \$11.2 million for investments in unconsolidated equity affiliates (substantially UNIFI-SANS). Additionally, \$53.4 million was expended for net retirements of long-term debt. The Company obtained \$8.4 million from the sale of capital assets during the fiscal year 2002.

The Company is not committed for any significant capital expenditures but expects to spend approximately \$26.0 million for capital expenditures during fiscal year 2003.

The Company periodically evaluates the carrying value of its polyester and nylon operations 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. The Company will continue to operate its stock buy-back program from time to time as it deems appropriate and financially prudent. However, it is anticipated that the Company will not repurchase significant shares in fiscal year 2003 but instead will focus on accumulating cash reserves to be used for future repayment of existing long-term obligations and prospective growth opportunities.

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"). 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 30, 2002, the Company had outstanding borrowings of \$23.0 million and availability of \$116.7 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. On borrowings outstanding at June 30, 2002, the interest rate was 4.34%. The weighted average interest rate on borrowings under the Credit Agreement for the period December 7, 2001 through June 30, 2002 was 4.46%. 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. 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 30, 2002, 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, with a rated production capacity of approximately 412 million pounds annually, for a price based on a mutually agreed fair market value within a range of \$300 to \$600 million, subject to certain conditions, including the ability of the Company to obtain a reasonable amount of financing on commercially reasonable terms. 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 U.S. POY facility, with a rated production capacity of approximately 185 million pounds annually, for a price based on a mutually agreed fair market value within a range of \$125 million to \$175 million.

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. As further discussed in Part I, Item 3. "Legal Proceedings," DuPont has filed a Demand for and Notice of Arbitration and Unifi has responded with an Answer and Counterclaim. DuPont and Unifi are presently in the discovery phase of arbitration with the arbitration hearing scheduled for November 2002. DuPont is seeking damages, that, based on the claims made to date, could amount to approximately \$23.0 million, injunctive relief and, absent a satisfactory cure by Unifi, a declaratory judgment that the Company is 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 of \$300 million to \$600 million, as set forth in the Alliance Agreements. The Company continues to deny DuPont's allegations and intends to vigorously defend against DuPont's claims and pursue its counterclaims. However, the outcomes of these claims are uncertain at this time and the Company is not making any assurances to the outcome thereof. However, the ultimate resolution of these matters could be material to Unifi's financial position, results of operations and cash flows.

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. While fiscal year 2002 showed signs of improvement as the year progressed, the situation does not appear that it will reverse in the foreseeable future. This highly competitive environment has resulted in a declining market for the Company, domestically and abroad. Consequently, management took certain consolidation and cost reduction actions in fiscal year 2001 to align our capacity and 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 (as evidenced by the Company refinancing its debt facilities in the current year — see discussion above) are sufficient to meet working capital and long-term investment 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 Intangibles" under Footnote 1 "Accounting Policies and Financial Statement Information" and Footnote 3 "Cumulative Effect of Accounting Change" for further discussion regarding the impact on the Consolidated Financial Statements of adopting these standards in the Company's 2002 fiscal year.

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 ABP 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 December 2001 the American Institute of Certified Public Accountants Issued Statement of Position 01-6, "Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others" (SOP 01-6). Extending credit to customers that results in trade receivables is an activity covered by this guidance. The purpose of this SOP is to clarify that accounting and financial reporting practices should be the same for lending and financing activities regardless of the type of entity engaging in that activity. This SOP is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has not yet assessed the impact that this SOP will have on its results of operation or financial position but does not believe it will result in any material changes to existing practices.

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 ABP 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.

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. In addition, questions have been raised about specific issues that may not have been contemplated when the agreement was entered into, or may not have been interpreted the same way by both parties. Some of these items are presently in dispute as discussed in "Legal Proceedings" above and elsewhere in this Annual Report on Form 10-K. As the arbitration is currently proceeding in the discovery phase with the arbitration hearing set for November 2002, it is too early in the process to predict an outcome. However, the ultimate resolution of these matters could be material to Unifi's results of operations and cash flows. Alliance cost savings impact gross margins on the statement of operations and is recorded as a reduction of accounts payable in the consolidated balance sheet.

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: The Company, in the fourth quarter of fiscal year 2001, recorded its share of the anticipated costs of closing DuPont's Cape Fear, North Carolina facility. The charge totaled \$15.0 million and represented 50% of the expected severance and dismantlement cost of closing this plant. The Company used estimates supplied by DuPont to close the facility as a basis for determining its share of the anticipated liability. Deriving the original estimate required judgment and involved certain estimates. Actual costs to close this facility could differ from those expected when the original liability was recorded, which may impact the valuation of accrued liabilities and results of operations.

Euro Conversion

The Company conducts business in multiple currencies, including the currencies of several countries in the European Union which began participating in the single European currency by adopting the Euro as their common currency as of January 1, 1999. With this conversion to the Euro, the functional currency of companies in those participating countries changed on December 31, 2001, from their respective historical currencies to the Euro. During the transition period that ended December 31, 2001, the existing currencies of the member countries remained legal tender and the majority of the Company's customers and vendors continued to use these legacy currencies when conducting business. Currency rates during the transition period, however, were not computed from one legacy currency to another but instead were first converted into the Euro. On January 1, 2002, Euro denominated bills and coins were issued and began circulating. Most participating countries withdrew their legacy currencies from circulation by February 28, 2002 and others did so at the end of May 2002. The conversion to the Euro did not have any adverse effect on the financial condition or results of operations of the Company.

Forward-Looking Statements

Certain statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this annual report 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 equity investments, technological advancements, employee relations, changes in spending for 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, negotiations of new or modifications of existing contracts for asset management, 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.

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 2002 and June 2003, respectively.

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

	June 30, 2002	June 24, 2001	June 25, 2000
	(Amounts in thousands)		
Foreign currency purchase contracts:			
Notional amount	\$ 3,011	\$ 14,400	\$ 49,343
Fair value	3,114	12,439	46,760
Net (gain) loss	\$ (103)	\$ 1,961	\$ 2,583
Foreign currency sales contracts:			
Notional amount	\$ 17,256	\$ 28,820	\$ 26,303
Fair value	16,769	29,369	26,474
Net (gain) loss	\$ (487)	\$ 549	\$ 171

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 30, 2002, June 24, 2001 and June 25, 2000, 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, were pre-tax losses of \$0.3 million, \$9.5 million and \$1.8 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 30, 2002, and June 24, 2001, 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 30, 2002. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unifi, Inc. at June 30, 2002 and June 24, 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2002, 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 19, 2002

CONSOLIDATED BALANCE SHEETS

	June 30, 2002	June 24, 2001
	(Amounts in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,105	\$ 6,634
Receivables	153,331	171,744
Inventories	111,843	124,434
Other current assets	6,782	9,212
Total current assets	291,061	312,024
Property, plant and equipment:		
Land	5,474	5,712
Buildings and air conditioning	228,104	237,767
Machinery and equipment	807,642	821,100
Other	138,550	145,348
	1,179,770	1,209,927
Less accumulated depreciation	(691,301)	(647,614)
	488,469	562,313
Investment in unconsolidated affiliates	176,056	167,286
Goodwill	13,462	61,077
Other intangible assets, net of accumulated amortization	1,248	3,514
Other noncurrent assets	33,401	31,105
	\$ 1,003,697	\$ 1,137,319
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 72,208	\$ 100,086
Accrued expenses	48,995	59,866
Income taxes payable	34	72
Current maturities of long-term debt and other current liabilities	8,282	85,962
Total current liabilities	129,519	245,986
Long-term debt and other liabilities	280,267	259,188
Deferred income taxes	84,712	80,307
Minority interests	11,159	11,295
Commitments and contingencies (Footnote 17)	—	—
Shareholders' equity:		
Common stock	5,385	5,382
Capital in excess of par value	220	—
Retained earnings	545,435	589,360
Unearned compensation	(874)	(1,203)
Accumulated other comprehensive loss	(52,126)	(52,996)
	498,040	540,543
	\$ 1,003,697	\$ 1,137,319

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	June 30, 2002	June 24, 2001	June 25, 2000
	(Amounts in thousands, except per share data)		
Net sales	\$ 914,716	\$ 1,131,157	\$ 1,291,435
Cost of sales	840,164	1,034,044	1,127,864
Selling, general and administrative expense	51,093	62,786	58,063
Provision for bad debts	6,285	8,202	8,694
Interest expense	22,956	30,123	30,294
Interest income	(2,559)	(2,549)	(2,772)
Other expense, net	3,239	8,077	1,052
Equity in (earnings) losses of unconsolidated affiliates	1,704	(2,930)	2,989
Minority interest	—	2,590	9,543
Alliance plant closure costs	—	15,000	—
Asset impairments and write downs	—	24,541	—
Employee severance and related charges	—	7,545	—
	(8,166)	(56,272)	55,708
Income (loss) before income taxes and cumulative effect of accounting change			
Provision (benefit) for income taxes	(2,092)	(11,598)	17,675
	(6,074)	(44,674)	38,033
Income (loss) before cumulative effect of accounting change			
Cumulative effect of accounting change (net of applicable income taxes of \$8,420 in 2002)	37,851	—	—
	\$ (43,925)	\$ (44,674)	\$ 38,033
Net income (loss)			
Earnings (losses) per common share:			
Income (loss) before cumulative effect of accounting change	\$ (.11)	\$ (.83)	\$.65
Cumulative effect of accounting change	(.71)	—	—
	\$ (.82)	\$ (.83)	\$.65
Net income (loss) per common share			
Earnings (losses) per common share — assuming dilution:			
Income (loss) before cumulative effect of accounting change	\$ (.11)	\$ (.83)	\$.65
Cumulative effect of accounting change	(.71)	—	—
	\$ (.82)	\$ (.83)	\$.65
Net income (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)
(Amounts in thousands)						
Balance June 27, 1999	59,548	\$ 5,955	\$ 13	\$ 658,353	\$ —	\$ (18,183)
Purchase of stock	(4,462)	(446)	(840)	(47,623)	—	—
Options exercised	1	—	14	—	—	—
Grantor's trust tax benefit	—	—	—	681	—	—
Stock forfeited to satisfy income tax withholding	(53)	(5)	(630)	—	—	—
Issuance of restricted stock	123	12	1,443	—	(1,455)	—
Amortization of restricted stock	—	—	—	—	195	—
Currency translation adjustments	—	—	—	—	—	(13,079)
Net income	—	—	—	38,033	—	—
Balance June 25, 2000	55,157	5,516	—	649,444	(1,260)	(31,262)
Purchase of stock	(1,436)	(144)	(1,020)	(15,410)	—	—
Issuance of restricted stock	104	10	1,020	—	(1,030)	—
Amortization of restricted stock	—	—	—	—	1,087	—
Currency translation adjustments	—	—	—	—	—	(21,734)
Net loss	—	—	—	(44,674)	—	—
Balance June 24, 2001	53,825	5,382	—	589,360	(1,203)	(52,996)
Purchase of stock	(2)	—	(16)	—	—	—
Options exercised	13	1	104	—	—	—
Issuance of restricted stock	15	2	132	—	(134)	—
Amortization of restricted stock	—	—	—	—	463	—
Currency translation adjustments	—	—	—	—	—	870
Net loss	—	—	—	(43,925)	—	—
Balance June 30, 2002	53,851	\$ 5,385	\$ 220	\$ 545,435	\$ (874)	\$ (52,126)

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Total Shareholders' Equity	Comprehensive Income(Loss) Note 1
(Amounts in thousands)		
Balance June 27, 1999	\$ 646,138	\$ 48,624
Purchase of stock	(48,909)	—
Options exercised	14	—
Grantor's trust tax benefit	681	—
Stock forfeited to satisfy income tax	—	—

withholding	(635)	—
Issuance of restricted stock	—	—
Amortization of restricted stock	195	—
Currency translation adjustments	(13,079)	(13,079)
Net income	38,033	38,033
	<hr/>	<hr/>
Balance June 25, 2000	622,438	24,954
Purchase of stock	(16,574)	—
Issuance of restricted stock	—	—
Amortization of restricted stock	1,087	—
Currency translation adjustments	(21,734)	(21,734)
Net loss	(44,674)	(44,674)
	<hr/>	<hr/>
Balance June 24, 2001	540,543	(66,408)
Purchase of stock	(16)	—
Options exercised	105	—
Issuance of restricted stock	—	—
Amortization of restricted stock	463	—
Currency translation adjustments	870	870
Net loss	(43,925)	(43,925)
	<hr/>	<hr/>
Balance June 30, 2002	\$ 498,040	\$ (43,055)
	<hr/>	<hr/>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	June 30, 2002	June 24, 2001	June 25, 2000
	(Amounts in thousands)		
Cash and cash equivalents at beginning of year	\$ 6,634	\$ 18,778	\$ 44,433
Operating activities:			
Net income (loss)	(43,925)	(44,674)	38,033
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change (net of applicable income taxes)	37,851	—	—
Losses of unconsolidated equity affiliates, net of distributions	2,438	23,204	6,200
Depreciation	73,899	81,114	82,750
Amortization	4,823	9,035	7,778
Non-cash compensation, forgiveness of debt	1,175	—	—
Non-cash portion of non-recurring charges	—	43,478	—
Deferred income taxes	4,405	(1,554)	10,692
Provision for bad debts and quality claims	12,123	14,985	14,866
Other	2,940	72	2,135
Changes in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments:			
Receivables	13,833	14,223	(39,257)
Inventories	9,899	17,221	(18,088)
Other current assets	(239)	1,214	(1,330)
Accounts payable and accrued expenses	(36,947)	3,285	27,118
Income taxes	7,386	(9,971)	(4,430)
Net cash provided by operating activities	<u>89,661</u>	<u>151,632</u>	<u>126,467</u>
Investing activities:			
Capital expenditures	(10,401)	(42,337)	(58,609)
Acquisitions	—	(2,159)	(7,953)
Investments in unconsolidated equity affiliates	(11,191)	(15,537)	(16,069)
Return of capital from equity affiliates	—	25,743	—
Investment of foreign restricted assets	(3,062)	(6,770)	—
Proceeds from sale of capital assets	8,387	41,725	5,637
Other	(4,982)	(887)	(1,138)
Net cash used in investing activities	<u>(21,249)</u>	<u>(222)</u>	<u>(78,132)</u>
Financing activities:			
Borrowing of long-term debt	674,838	355,009	72,342
Repayment of long-term debt	(728,214)	(492,450)	(81,589)
Issuance of Company stock	105	—	14
Purchase and retirement of Company stock	(16)	(16,574)	(48,909)
Distributions and advances to minority shareholders	—	(12,000)	(12,000)
Other	(2,377)	(375)	287
Net cash used in financing activities	<u>(55,664)</u>	<u>(166,390)</u>	<u>(69,855)</u>
Effect of exchange rate changes on cash and cash equivalents	(277)	2,836	(4,135)
Net increase (decrease) in cash and cash equivalents	<u>12,471</u>	<u>(12,144)</u>	<u>(25,655)</u>
Cash and cash equivalents at end of year	<u>\$ 19,105</u>	<u>\$ 6,634</u>	<u>\$ 18,778</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 year 2002 was comprised of fifty-three weeks and fiscal years 2001 and 2000 consisted of fifty-two 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 30, 2002, and June 24, 2001, were \$36.6 million and \$34.7 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 \$10.7 million at June 30, 2002 and \$9.9 million at June 24, 2001.

Inventories: The Company utilizes the last-in, first-out ("LIFO") method for valuing certain inventories representing 47.3% and 47.0% of all inventories at June 30, 2002, and June 24, 2001, 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 \$1.1 million and \$5.0 million in excess of the LIFO valuation at June 30, 2002, and June 24, 2001, respectively. The Company experienced LIFO liquidations in both the current year and the prior year resulting in the recognition of approximately \$0.5 million and \$0.4 million in pre-tax income for each fiscal year, respectively. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. The total inventory reserves on the Company's books, including LIFO reserves, at June 30, 2002 and June 24, 2001 were \$4.6 million and \$5.8 million, respectively. The following table reflects the composition of the Company's inventory as of June 30, 2002 and June 24, 2001:

	June 30, 2002	June 24, 2001
	(Amounts in thousands)	
Raw materials and supplies	\$ 52,531	\$ 47,374
Work in process	12,103	12,527
Finished goods	47,209	64,533
	\$ 111,843	\$ 124,434

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 30, 2002 consist of acquisition related assets and other intangibles of \$13.5 million and \$1.2 million, respectively compared to \$59.7 million and \$3.4 million, respectively at June 24, 2001. 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 30, 2002 is associated with the Company's polyester reporting segment and is deductible for tax purposes.

The accumulated amortization as of June 30, 2002 and June 24, 2001 associated with goodwill that remains on the Company's books at June 30, 2002 for which no amortization expense was recognized in fiscal year 2002 in accordance with SFAS 142 was \$1.5 million as of both dates. The following table reconciles the reported net income (loss) for fiscal years 2001 and 2000 to what would have been reported absent amortization of goodwill:

	June 24, 2001	June 25, 2000
	(Amounts in thousands, except per share amounts)	
Net income (loss) as reported	\$ (44,674)	\$ 38,033
Add back: Goodwill amortization, net of tax	3,058	3,225
	\$ (41,616)	\$ 41,258
Diluted net income (loss) per share:		
As reported	\$ (.83)	\$.65
Adjusted for goodwill amortization add back	\$ (.77)	\$.71

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 121. The estimated annual amortization expense associated with the remaining intangibles is \$1.0 million for fiscal year 2003 and \$0.2 million for fiscal year 2004. Accumulated amortization at June 30, 2002, and June 24, 2001, for these intangible assets was \$9.4 million and \$7.2 million, respectively.

Other Noncurrent Assets: Other noncurrent assets at June 30, 2002, and June 24, 2001, consist primarily of the cash surrender value of key executive life insurance policies (\$9.6 million and \$9.3 million); unamortized bond issue costs and debt origination fees (\$6.0 million and \$6.1 million); restricted cash investments in Brazil (\$4.9 million and \$4.4 million) and various notes receivable due from both affiliated and non-affiliated parties (\$6.0 million and \$5.0 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 30, 2002, and June 24, 2001, for unamortized debt origination costs at June 30, 2002 was \$3.6 million and \$2.8 million, respectively. In the current fiscal year and in fiscal year 2001, the Company refinanced certain debt agreements, which resulted in the origination of new debt fees and the write-off of previously unamortized fees associated with the refinanced debt. 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.

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

	June 30, 2002	June 24, 2001	June 25, 2000
	(Amounts in thousands)		
Numerator:			
Income (loss) before cumulative effect of accounting change	\$ (6,074)	\$ (44,674)	\$ 38,033
Cumulative effect of accounting change	(37,851)	—	—
	\$ (43,925)	\$ (44,674)	\$ 38,033
Denominator:			
Denominator for basic earnings (losses) per share — weighted average shares	53,730	53,868	58,488
Effect of dilutive securities:			
Stock options	—	—	19
Restricted stock awards	2	—	4
	53,732	53,868	58,511

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-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

based method under SFAS 123 been applied, compensation expense would have been recorded for the options outstanding in fiscal years 2002, 2001 and 2000 based on their respective vesting schedules.

Net income (loss) in fiscal 2002, 2001 and 2000 on a proforma basis assuming SFAS 123 has been applied would have been as follows:

	June 30, 2002	June 24, 2001	June 25, 2000
	(Amounts in thousands, except per share amounts)		
Net income (loss) as reported	\$ (43,925)	\$ (44,674)	\$ 38,033
Adjustment: Impact of stock options	(3,227)	(4,687)	(5,241)
Adjusted net income (loss)	\$ (47,152)	\$ (49,361)	\$ 32,792
Diluted net income (loss) per share:			
As reported	\$ (.82)	\$ (.83)	\$.65
Adjusted for stock option expense	\$ (.88)	\$ (.92)	\$.56

The fair value and related compensation expense of the 2002, 2001 and 2000 options were calculated as of the issuance date using the Black-Scholes model with the following assumptions:

Options Granted	2002	2001	2000
Expected life (years)	8.9	10.0	10.0
Interest rate	4.35%	6.00%	6.00%
Volatility	41.8%	47.7%	49.5%
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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 December 2001 the American Institute of Certified Public Accountants Issued Statement of Position 01-6, "Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others" (SOP 01-6). Extending credit to customers that results in trade receivables is an activity covered by this guidance. The purpose of this SOP is to clarify that accounting and financial reporting practices should be the same for lending and financing activities regardless of the type of entity engaging in that activity. This SOP is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has not yet assessed the impact that this SOP will have on its results of operation or financial position but does not believe it will result in any material changes to existing practices.

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 ABP 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.

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, Alliances 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 divestitures described in the preceding two paragraphs totaled approximately \$39.4 million.

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, with a rated production capacity of approximately 412 million pounds annually, for a price based on a mutually agreed fair market value within a range of \$300 to \$600 million, subject to certain conditions, including the ability of the Company to obtain a reasonable amount of financing on commercially reasonable terms. 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 U.S. POY facility, with a rated production capacity of approximately 185 million pounds annually, for a price based on a mutually agreed fair market value within a range of \$125 million to \$175 million. See Footnote 16 "Alliance Plant Closure Costs" and Footnote 17 "Commitments and Contingencies" for additional information involving the Alliance.

On March 8, 2000, the Company acquired Intex Yarns Limited (Intex) located in Manchester, England for approximately \$8.0 million plus assumed debt. This acquisition added high quality, package-dyeing capabilities in Europe and complements the Company's yarn production facility in Letterkenny, Ireland.

The Glen Raven, Intex 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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 follows:

	June 30, 2002	June 24, 2001
	(Amounts in thousands)	
Bonds payable	\$ 248,860	\$ 248,651
Revolving credit facility dated December 7, 2001	23,000	—
Revolving credit facility dated December 20, 2000	—	6,500
Accounts receivable securitization	—	70,085
Sale-leaseback obligation	3,046	3,020
Other obligations	13,643	16,894
	288,549	345,150
Total debt		
Current maturities	8,282	85,962
	280,267	259,188
Total long-term debt and other liabilities	\$ 280,267	\$ 259,188

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 30, 2002, and June 24, 2001, was approximately \$200.0 million and \$195.0 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"). 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 30, 2002, the Company had outstanding borrowings of \$23.0 million and availability of \$116.7 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. On borrowings outstanding at June 30, 2002, the interest rate was 4.34%. The weighted average interest rate on borrowings under the Credit Agreement for the period December 7, 2001 through June 30, 2002 was 4.46%. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

being amortized over the term of the Credit Agreement. 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 30, 2002, the Company was in compliance with all covenants under the Credit Agreement.

Effective December 20, 2000, the Company refinanced a \$400 million credit facility dated April 15, 1996, that was scheduled to mature April 15, 2001, with a new unsecured three year \$250 million revolving bank credit facility. Additionally, the Company entered into a \$100 million trade receivables financing agreement (the "Receivables Agreement") that was secured by its domestic and certain foreign accounts receivable. The Receivables Agreement did not have a stated maturity but was terminable at the option of the Company with a five-day written notice. Outstanding borrowing of \$70.1 million at June 24, 2001 under the Receivables Agreement were classified as a current maturity of long-term debt, pending renegotiation or refinancing of the December 20, 2000 revolving credit facility discussed in the following paragraph. Interest on loans under the December 20, 2000 credit facility was charged at LIBOR plus .825% and interest on advances under the receivables financing agreement was charged at the applicable commercial paper rate plus .30%. The weighted average interest rates for the borrowings made from the revolver and the accounts receivable securitization for the period of time they were outstanding in fiscal year 2002 prior to refinancing were 4.94% and 3.14%, respectively. The weighted average interest rates for the revolver and securitization from December 20, 2000 through June 24, 2001 were 6.60% and 5.92%, respectively. The weighted average interest rate for the \$400 million revolving credit facility for the period of time this debt was outstanding in fiscal year 2001 was 6.91%.

The loans under the December 20, 2000 revolving credit facility included financial covenants that required, at June 24, 2001, tangible net worth of \$396.1 million, a maximum leverage ratio of 3.25 and a minimum interest coverage ratio of 2.50. The Company was in default of the interest coverage covenant of the new revolving credit facility at June 24, 2001. As a result, the Company obtained a waiver through October 31, 2001, which reduced the facility from \$250 million to \$150 million and raised the effective interest rate approximately 2.0%. The outstanding balance of the revolving credit facility of \$6.5 million at June 24, 2001 was classified as a current maturity of long-term debt.

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 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 \$277 thousand. 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 \$8.2 million in fiscal year 2003 and \$5.4 million in fiscal year 2004.

Interest capitalized during fiscal 2002 and 2001 was \$0.2 million and \$2.4 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Income Taxes

The provision for income taxes for fiscal 2002, 2001 and 2000 consists of the following:

	June 30, 2002	June 24, 2001	June 25, 2000
	(Amounts in thousands)		
Currently payable (recoverable):			
Federal	\$ (6,290)	\$ (6,005)	\$ 6,629
State	330	666	1,682
Foreign	747	108	(225)
Total current	<u>(5,213)</u>	<u>(5,231)</u>	<u>8,086</u>
Deferred:			
Federal	3,395	(4,239)	9,772
State	(274)	(1,325)	(261)
Foreign	—	(803)	78
Total deferred	<u>3,121</u>	<u>(6,367)</u>	<u>9,589</u>
Income taxes (benefit) before cumulative effect of accounting change (2002)	<u>\$ (2,092)</u>	<u>\$ (11,598)</u>	<u>\$ 17,675</u>

Income taxes/(benefit) were (25.6%), (20.6%) and 31.7% of pretax earnings/(losses) in fiscal 2002, 2001 and 2000, respectively. A reconciliation of the provision for income taxes/(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 30, 2002	June 24, 2001	June 25, 2000
Federal statutory tax rate	(35.0%)	(35.0%)	35.0%
State income taxes net of federal tax benefit	1.4	(0.5)	3.7
State tax credits net of federal tax benefit	(1.8)	(0.4)	(2.1)
Foreign taxes less than domestic rate	(11.4)	—	—
Foreign tax benefit of losses less than domestic rate	15.5	16.8	2.5
Extraterritorial income exclusion	(1.0)	(0.8)	(1.1)
Research and experimentation credit	(0.6)	(0.1)	(0.1)
Reversal of tax reserves	—	—	(7.4)
Nondeductible expenses and other	7.3	(0.6)	1.2
Effective tax rate	<u>(25.6%)</u>	<u>(20.6%)</u>	<u>31.7%</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 30, 2002, and June 24, 2001, were as follows:

	June 30, 2002	June 24, 2001
(Amounts in thousands)		
Deferred tax liabilities:		
Property, plant and equipment	\$ 99,404	\$ 100,676
Investments in equity affiliates	16,736	19,297
Other	1,392	1,021
	117,532	120,994
Deferred tax assets:		
Accrued liabilities and valuation reserves	8,715	15,397
State tax credits	16,651	16,608
Other items	7,454	8,682
	32,820	40,687
Net deferred tax liabilities	\$ 84,712	\$ 80,307

6. Common Stock, Stock Option Plans and Restricted Stock

Common shares authorized were 500 million in 2002 and 2001. Common shares outstanding at June 30, 2002, and June 24, 2001, were 53,851,576 and 53,825,533, 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, 230,805 and 1,975,570 incentive stock options granted in fiscal 2002, 2001 and 2000, respectively were all from the 1999 Long-Term Incentive Plan. In addition to the 3,479,176 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 582,895 common shares reserved and previous NQSO plans with 645,675 common shares reserved at June 30, 2002. No additional options will be issued under any previous ISO or NQSO plan. The stock option activity for 2002, 2001 and 2000 of all three plans were as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	ISO		NQSO	
	Options Outstanding	Weighted Avg. \$/Share	Options Outstanding	Weighted Avg. \$/Share
Fiscal 2000:				
Shares under option — beginning of year	846,357	\$ 22.15	1,576,007	\$ 25.29
Granted	1,975,570	11.90	—	—
Exercised	(833)	16.31	—	—
Canceled	(16,500)	22.73	(346,832)	24.74
Shares under option — end of year	<u>2,804,594</u>	<u>\$ 14.93</u>	<u>1,229,175</u>	<u>\$ 25.44</u>
Fiscal 2001:				
Granted	230,805	\$ 9.11	—	\$ —
Canceled	(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	—	—
Canceled	(896,799)	13.33	(543,500)	25.99
Shares under option — end of year	<u>4,062,071</u>	<u>\$ 11.05</u>	<u>645,675</u>	<u>\$ 24.74</u>

	Fiscal 2002	Fiscal 2001	Fiscal 2000
ISO:			
Exercisable shares under option — end of year	1,644,249	1,609,931	829,024
Option price range	\$ 7.33-\$25.38	\$ 11.19-\$25.38	\$ 10.19-\$25.38
Weighted average exercise price for options exercisable	\$ 13.91	\$ 16.46	\$ 22.14
Weighted average remaining life of shares under option	7.9	7.4	4.7
Fair value of options granted	\$ 3.46	\$ 5.59	\$ 7.58
NQSO:			
Exercisable shares under option — end of year	645,675	1,189,175	1,229,175
Option price range	\$ 16.31-\$31.00	\$ 16.31-\$31.00	\$ 16.31-\$31.00
Weighted average exercise price for options exercisable	\$ 24.74	\$ 25.31	\$ 25.44
Weighted average remaining life of shares under option	4.0	4.1	5.1
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 and 2000 vest in annual increments over five years from the grant date.

During fiscal years 2002, 2001 and 2000, the Company issued 15,000, 104,366 shares and 123,000 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 year ended June 30, 2002, the Company incurred \$3.0 million of expense for its obligation 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 years 2001 and 2000, which was determined at the discretion of the Board of Directors, amounted to \$5.0 million and \$11.0 million, respectively. 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 30, 2002, are \$5.2 million in 2003, \$3.5 million in 2004, \$3.2 million in 2005, \$2.2 million in 2006, \$1.4 million in 2007 and \$1.3 million in aggregate thereafter. Rental expense was \$8.2 million, \$7.9 million and \$8.5 million for the fiscal years 2002, 2001 and 2000, respectively. The Company had not committed for any significant capital expenditures at June 30, 2002 but expects to spend approximately \$26.0 million for capital expenditures during fiscal year 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 2002 fiscal year. UTG comprises the majority of the amounts included in the "All Other" column for fiscal years 2001 and 2000. 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, Alliances and Divestures" for further information regarding these transactions. The Company also maintains investments in several minority-owned and jointly owned affiliates. See Footnote 11 "Investment in Unconsolidated Affiliates" for further discussion of these equity 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 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	—	776,282
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
Fiscal 2000:				
Net sales to external customers	\$861,842	\$409,433	\$20,160	\$1,291,435
Intersegment net sales	23	408	11,757	12,188
Depreciation and amortization	59,435	22,001	767	82,203
Segment operating income	66,572	40,999	941	108,512
Total assets	695,675	358,205	17,721	1,071,601

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, Alliances and Divestures" for further information regarding this transaction.

For purposes of internal management reporting, segment operating income (loss) represents net sales less cost of goods sold and certain allocated indirect manufacturing and selling, general and administrative expenses. Those indirect manufacturing and selling, general and administrative costs charged to the operating segments are allocated based on activity drivers relevant to the respective costs. The primary differences between the financial information of the operating segments, as reported to management, and the Company's consolidated reporting relates to fiber costing, certain unallocated manufacturing and selling, general and administrative expenses, the provision for bad debts 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. For significant capital projects, capitalization is delayed for management segment reporting until the facility is substantially complete. However, for consolidated financial reporting, assets are capitalized into construction in progress as costs are incurred or carried as unallocated corporate fixed assets if they have been placed in service but have not as yet been moved for management segment reporting.

The change in the polyester segment total assets between fiscal year end 2001 and 2002 reflects reduced current assets of \$8.3 million and lower fixed assets of \$44.9 million. The current asset reduction resulted from decreased accounts receivables and inventories offset, in part, by higher cash balances at foreign locations. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

fixed asset reduction is primarily associated with current year depreciation. The change in the nylon segment total assets for this period is a result of lower working capital of \$2.6 million, decreased property and equipment of \$24.3 million and lower noncurrent assets of \$46.3 million. The reduction in property and equipment is primarily associated with current year depreciation and the sale and write-down to net realizable value of excess real estate. The reduction in noncurrent assets 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 fiscal year.

	<u>June 30, 2002</u>	<u>June 24, 2001</u>	<u>June 25, 2000</u>
	(Amounts in thousands)		
Depreciation and amortization:			
Depreciation and amortization of specific reportable segment assets	\$ 70,537	\$ 80,823	\$ 82,203
Depreciation of unallocated assets	5,881	7,271	7,146
Amortization of unallocated assets and deferred compensation	2,304	2,055	1,179
	<u>78,722</u>	<u>90,149</u>	<u>90,528</u>
Consolidated depreciation and amortization			
	\$ 78,722	\$ 90,149	\$ 90,528
Operating income (loss):			
Reportable segments operating income	\$ 24,514	\$ 33,963	\$ 108,512
Unallocated start-up operating losses	—	2,078	—
Net standard cost (income) expense adjustment to LIFO	(2,750)	(2,781)	4,444
Unallocated manufacturing (income) expense	70	339	(1,440)
Unallocated selling, general, and administrative expense	3,735	—	—
Provision for bad debts	6,285	8,202	8,694
Interest expense	22,956	30,123	30,294
Interest income	(2,559)	(2,549)	(2,772)
Other (income) expense	3,239	8,077	1,052
Equity in (earnings) losses of unconsolidated affiliates	1,704	(2,930)	2,989
Minority interests	—	2,590	9,543
Alliance plant closure costs	—	15,000	—
Asset impairments and write downs	—	24,541	—
Employee severance and related charges	—	7,545	—
	<u>(8,166)</u>	<u>(56,272)</u>	<u>55,708</u>
Income (loss) before income taxes and cumulative effect of accounting change	\$ (8,166)	\$ (56,272)	\$ 55,708
Total assets:			
Reportable segments total assets	\$ 776,282	\$ 906,039	\$ 1,071,601
Corporate current assets, net of LIFO reserve	16,855	24,720	16,254
Unallocated corporate fixed assets	12,818	16,603	44,159
Other non-current corporate assets	41,430	42,226	38,522
Investments in equity affiliates	176,056	167,286	208,918
Intersegment notes and receivables	(19,744)	(19,555)	(24,690)
	<u>1,003,697</u>	<u>1,137,319</u>	<u>1,354,764</u>
Consolidated assets	\$ 1,003,697	\$ 1,137,319	\$ 1,354,764

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

aggregated \$108.2 million in 2002, \$143.4 million in 2001 and, \$182.8 million in 2000. During fiscal 2002, 2001 and 2000 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. See "Customers" in Part I of this Annual Report on Form 10-K for further discussion of reliance on significant customers.

The Company's foreign operations primarily consist of manufacturing operations in Ireland, England, Brazil and, for fiscal years 2001 and 2000, Colombia. Net sales, pre-tax operating income and total assets of the Company's foreign and domestic operations are as follows:

	June 30, 2002	June 24, 2001	June 25, 2000
(Amounts in thousands)			
Foreign operations:			
Net sales	\$ 165,424	\$ 190,763	\$ 182,326
Pre-tax income (loss)	1,173	(28,430)	(4,456)
Total assets	159,631	160,190	193,746
Domestic operations:			
Net sales	\$ 749,292	\$ 940,394	\$ 1,109,109
Pre-tax income (loss)	(9,339)	(27,842)	60,164
Total assets	844,066	977,129	1,161,018

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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 2002 and June 2003, respectively.

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

	June 30, 2002	June 24, 2001	June 25, 2000
	(Amounts in thousands)		
Foreign currency purchase contracts:			
Notional amount	\$ 3,011	\$ 14,400	\$ 49,343
Fair value	3,114	12,439	46,760
Net (gain) loss	\$ (103)	\$ 1,961	\$ 2,583
Foreign currency sales contracts:			
Notional amount	\$ 17,256	\$ 28,820	\$ 26,303
Fair value	16,769	29,369	26,474
Net (gain) loss	\$ (487)	\$ 549	\$ 171

For the fiscal years ended June 30, 2002, June 24, 2001 and June 25, 2000, 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, were pre-tax losses of \$0.3 million, \$9.5 million and \$1.8 million, respectively.

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 operated in a start up mode through the end of the current fiscal year. It is anticipated that the facility will be substantially on line by the end of the first quarter of fiscal 2003 and in full production by the end of the second fiscal quarter of fiscal 2003. Unifi will manage the day-to-day production and shipping of the LDI and SANS Fibres will handle technical support and sales. Sales from this entity are expected to be primarily to customers in the NAFTA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and CBI markets. Annual LDI production capacity from the joint venture is estimated to be approximately 9.6 million pounds.

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 25.0 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 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.

Condensed balance sheet and income statement information of the combined unconsolidated equity affiliates as of and for the twelve-month periods ended June 30, 2002, June 24, 2001, and June 25, 2000 are as follows:

	June 30, 2002	June 24, 2001	June 25, 2000
	(Amounts in thousands)		
Current assets	\$ 214,166	\$ 258,679	\$ 223,068
Noncurrent assets	212,501	216,760	234,093
Current liabilities	33,256	145,963	37,632
Shareholders' equity and capital accounts	313,862	294,411	398,113
Net sales	\$ 460,987	\$ 493,012	\$ 507,950
Gross profit	31,329	27,229	33,524
Income from operations	8,903	4,224	988
Net income	(1,508)	6,642	2,453

UNIFI-SANS and the LLC are organized as partnerships for U.S. tax purposes. Taxable income is passed through UNIFI-SANS and the LLC to the members in accordance with the Operating Agreements of UNIFI-SANS and the LLC. For the fiscal years ended June 30, 2002, June 24, 2001 and June 25, 2000, distributions received by the Company from the LLC amounted to \$0.9 million, \$51.9 million and \$3.2 million, respectively. Included in the above net sales amount for the June 30, 2002 fiscal year and for the approximate 12 week period ended June 24, 2001 are sales to Unifi of approximately \$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:

	June 30, 2002	June 24, 2001	June 25, 2000
	(Amounts in thousands)		
Cash payments (receipts) for:			
Interest	\$ 23,462	\$ 28,362	\$ 28,978
Income taxes, net of refunds	(13,909)	1,392	9,315

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the Company and Burlington's interest in the UTP is included in the Company's financial statements as minority interest. Minority interest for Burlington's share of UTP in fiscal 2002, 2001 and 2000 were \$0, \$3.0 million and \$9.4 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 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 (see Footnote 15 "Consolidation and Cost Reduction Efforts"). A similar charge of \$0.2 million was recorded in fiscal year 2002. In addition, an adjustment was recorded in fiscal year 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 30, 2002, a reserve of \$4.1 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 30, 2002, June 24, 2001 and June 25, 2001:

	June 30, 2002	June 24, 2001	June 25, 2000
	(Amounts in thousands)		
Balance at beginning of fiscal year	\$ 5,636	\$ 7,439	\$ 10,962
Change in estimate for original charges	187	1,659	—
Present value adjustment	386	—	—
Cash payments	(2,143)	(3,462)	(3,523)
	\$ 4,066	\$ 5,636	\$ 7,439

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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 30, 2002 and June 24, 2001:

	June 30, 2002	June 24, 2001
	(Amounts in thousands)	
Balance at beginning of fiscal year	\$ 2,338	\$ —
Original charges	—	7,753
Change in estimate for original charges	—	(209)
Adjustment for change in estimate for medical and dental expenses associated with 1999 provision (see Footnote 14)	—	(1,659)
Additional charges — fiscal year 2002	1,454	—
Cash payments	(2,519)	(3,547)
	\$ 1,273	\$ 2,338

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

16. 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 2 "Acquisitions, Alliances and Divestures." Payments for this obligation are expected to be made over the eighteen-month period commencing July 2001 and ending December 2002. This 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 30, 2002 and June 24, 2001:

	June 30, 2002	June 24, 2001
	(Amounts in thousands)	
Balance at beginning of fiscal year	\$ 15,000	\$ —
Original charges	—	15,000
Change in estimate for original charges	—	—
Cash payments	(8,368)	—
	\$ 6,632	\$ 15,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

17. Commitments and Contingencies

As further described in Footnote 2 "Acquisitions, Alliances and Divestitures," 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. As further discussed in Part I, Item 3. "Legal Proceedings," DuPont has filed a Demand for and Notice of Arbitration and Unifi has responded with an Answer and Counterclaim. DuPont and Unifi are presently in the discovery phase of arbitration with the arbitration hearing scheduled for November 2002. DuPont is seeking damages, that, based on the claims made to date, could amount to approximately \$23.0 million, injunctive relief and, absent a satisfactory cure by Unifi, a declaratory judgment that the Company is 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 of \$300 million to \$600 million, as set forth in the Alliance Agreements. The Company continues to deny DuPont's allegations and intends to vigorously defend against DuPont's claims and pursue its counterclaims. However, the outcomes of these claims are uncertain at this time and the Company is not making any assurances to the outcome thereof. However, the ultimate resolution of these matters could be material to Unifi's financial position, results of operations and cash flows.

18. Quarterly Results (Unaudited)

Quarterly financial data for the years ended June 30, 2002 and June 24, 2001 is presented below:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)
	(Amounts in thousands, except per share data)			
2001:				
Net sales	\$ 319,163	\$ 299,143	\$ 255,223	\$ 257,628
Gross profit	37,660	28,040	15,975	15,438
Net income (loss)	2,883	(3,428)	(28,548)	(15,581)
Earnings (losses) per share (basic)	.05	(.06)	(.53)	(.29)
Earnings (losses) per share (diluted)	.05	(.06)	(.53)	(.29)
	(13 Weeks)	(13 Weeks)	(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)
Earnings (losses) per share (diluted) before cumulative effect of accounting change	.05	(.07)	(.07)	(.03)
Net loss per share (diluted)	(.66)	(.07)	(.07)	(.03)

Consistent with the prior year's Annual Report on Form 10-K, net sales for the first quarter of fiscal year 2001 were reclassified to conform with the presentation for the second, third and fourth quarters of that year. Net sales for all quarters presented in fiscal year 2001 reflect the reclassification of freight expense from net sales into cost of sales.

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.

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", "Election of Class 2 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 beginning on page 15 and ending on page 16 of the definitive proxy statement filed with the Commission since the close of the Registrant's fiscal year ended June 30, 2002, 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 54 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.

Executive Vice Presidents

Willis C. Moore, III. Mr. Moore is 49 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. Additionally, Mr. Moore continues to serve as the Company's Chief Financial Officer.

G. Alfred Webster. Mr. Webster is 54 and has been a Vice President or Executive Vice President of the Company since 1979. He has been a member of the Board of Directors since 1986.

Senior Vice Presidents

Thomas H. Caudle. Mr. Caudle is 51 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.

Michael E. Delaney. Mr. Delaney is 46 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.

Stewart Q. Little. Mr. Little is 49 and has been a Vice President of the Company since October 24, 1985 and a Senior Vice President since January 20, 1999. He is currently serving as Senior Vice President of Customer Development.

Ottis "Lee" Gordon. Mr. Gordon is 56 and has been an employee of the Company since the merger with Macfield, Inc. in 1991. Prior to the merger, Mr. Gordon had been an employee of Macfield since 1973. On January 20, 1999, Mr. Gordon was elected as a Vice President of Product Development of the Company and on July 26, 2000 he was elected as Senior Vice President of Product Development.

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 25, 2001. 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.

(c) Family Relationship: There are no family relationship between any of the Officers if 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 2002”, “Option Exercises and Option/SAR Values”, “Employment and Termination Agreements”, and the “Performance Graph-Shareholder Return on Common Stock” beginning on Page 8 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 30, 2002, 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 (10g), (10h), (10i), (10j) and (10k) 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) Number of shares to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	4,707,746	\$ 12.925	2,265,754
Equity compensation plans not approved by shareholders	—	—	—
Total	4,707,746	\$ 12.925	2,265,754

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 Page 6 and Page 7 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 30, 2002, 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 8 and Page 9 of the definitive proxy statement filed with the Commission since the close of the Registrant’s fiscal year ended June 30, 2002, and within 120 days after the close of said fiscal year, is incorporated herein by reference.

PART IV

Item 14. 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.

	<u>Pages</u>
Report of Independent Auditors	24
Consolidated Balance Sheets at June 30, 2002 and June 24, 2001	25
Consolidated Statements of Operations for the Years Ended June 30, 2002, June 24, 2001, and June 25, 2000	26
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss) for the Years Ended June 30, 2002, June 24, 2001, and June 25, 2000	27
Consolidated Statements of Cash Flows for the Years Ended June 30, 2002, June 24, 2001, and June 25, 2000	28
Notes to Consolidated Financial Statements	29
2. Financial Statement Schedules	
Schedules for the three years ended June 30, 2002:	
II — Valuation and Qualifying Accounts	59

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 2002 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)	— Restated by-laws of Unifi, Inc., effective August 31, 2001, (filed as Exhibit 3(b) with the Company's Form 10-K for the fiscal year ended June 24, 2002), which is incorporated herein by reference.
(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.
(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"), filed herewith.
(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 herewith.
(10g)	— *Employment Agreement between Unifi, Inc. and Brian R. Parke, dated January 23, 2002, filed herewith.
(10h)	— *Change of Control Agreement between Unifi, Inc. and G. Alfred Webster, dated October 26, 2000, expiring November 1, 2005 (filed as Exhibit (10i) with the Company's Form 10-K for the fiscal year ended June 24, 2001), which is incorporated herein by reference.
(10i)	— *Change of Control Agreement between Unifi, Inc. and Willis C. Moore, III, dated January 23, 2002, expiring November 1, 2005, filed herewith (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).
(10j)	— *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).

Exhibit No.	Description
(10k)	— *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.
(10l)	— 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.
(21)	— Subsidiaries of Unifi, Inc.
(23)	— Consent of Ernst & Young LLP.
(99a)	— Chief Executive Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
(99b)	— Chief Financial Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
(b)	— Reports on Form 8-K. None

* 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 14(c) of this report.

CERTIFICATIONS

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

Date: September 23, 2002

/s/ BRIAN R. PARKE

Brian R. Parke
President and Chief Executive Officer

I, Willis C. Moore, III, certify that:

1. I have reviewed this annual report on Form 10-K of Unifi, Inc.;
2. Based on my knowledge, this annual 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 annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Unifi, Inc. as of, and for, the periods presented in this annual report.

Date: September 23, 2002

/s/ WILLIS C. MOORE, III

Willis C. Moore, III
*Executive Vice President and
Chief Financial Officer*

(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)		
(Amounts in thousands)					
Allowance for uncollectible accounts(a):					
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
Year ended June 25, 2000	8,749	14,866	225	(6,631)	17,209

- (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) May include 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.

EXHIBIT (10e)
EXECUTION COPY

CREDIT AGREEMENT

Dated as of December 7, 2001

Among

THE FINANCIAL INSTITUTIONS NAMED HEREIN,

as the Lenders

and

BANK OF AMERICA, N.A.,

as the Agent

and

UNIFI, INC.

and

CERTAIN OF ITS DOMESTIC SUBSIDIARIES,

as the Borrowers

BANK OF AMERICA, N.A.,
AS SOLE LEAD ARRANGER AND BOOK MANAGER

CREDIT AGREEMENT

This Credit Agreement, dated as of December 7, 2001 (this "Agreement"), among the financial institutions from time to time parties hereto (such financial institutions, together with their respective successors and assigns, are referred to hereinafter each individually as a "Lender" and collectively as the "Lenders"), Bank of America, N.A. with an office at 600 Peachtree Street N.E., 5th Floor, Atlanta, Georgia 30308, as agent for the Lenders (in its capacity as agent, the "Agent"), Unifi, Inc., a New York corporation, with offices at 7201 West Friendly Avenue, Greensboro, North Carolina 27410 (the "Parent") and the subsidiaries of the Parent listed on the signature pages hereto, (the Parent and each such subsidiary is individually hereinafter referred to as a "Borrower" and the Parent together with all such subsidiaries are hereinafter collectively referred to as the "Borrowers").

W I T N E S S E T H:

WHEREAS, the Borrowers have requested the Lenders to make available to the Borrowers a revolving line of credit for loans and letters of credit in an amount not to exceed \$150,000,000, and which extensions of credit the Borrowers will use for the purposes permitted hereunder;

WHEREAS, capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings ascribed thereto in Annex A which is attached hereto and incorporated herein; the rules of construction contained therein shall govern the interpretation of this Agreement, and all Annexes, Exhibits and Schedules attached hereto are incorporated herein by reference;

WHEREAS, the Lenders have agreed to make available to the Borrowers a revolving credit facility upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in this Agreement, and for good and valuable consideration, the receipt of which is hereby acknowledged, the Lenders, the Agent, and the Borrowers hereby agree as follows.

ARTICLE 1
LOANS AND LETTERS OF CREDIT

1.1 Total Facility.

Subject to all of the terms and conditions of this Agreement, the Lenders agree to make available a total credit facility of up to \$150,000,000 (the "Total Facility") to the Borrowers from time to time during the term of this Agreement. The Total Facility shall be composed of a revolving line of credit consisting of Revolving Loans and Letters of Credit described herein.

1.2 Revolving Loans.

(a) (i) Amounts. Subject to the satisfaction of the conditions precedent set forth in Article 8, each Lender severally, but not jointly, agrees, upon a Borrower's request from time to time on any Business Day during the period from the Closing Date to the Termination Date, to make revolving loans (the "Revolving Loans") to the Borrowers (including Ex-Im Bank Revolving Loans; provided, however, no Lender shall have any obligation to extend an Ex-Im Bank Revolving Loan to any Borrower after December 7, 2004) in amounts not to exceed such Lender's Pro Rata Share of Availability, except for Non-Ratable Loans and Agent Advances and, as otherwise set forth herein, with respect to Ex-Im Bank Revolving Loans. The Lenders, however, in their unanimous discretion, may elect to make Revolving Loans or issue or arrange to have issued Letters of Credit in excess of the Borrowing Base on one or more occasions, but if they do so, neither the Agent nor the Lenders shall be deemed thereby to have changed the limits of the Borrowing Base or to be obligated to exceed such limits on any other occasion. If any Borrowing would exceed Availability, the Lenders may refuse to make or may otherwise restrict the making of Revolving Loans as the Lenders determine until such excess has been eliminated, subject to the Agent's authority, in its sole discretion, to make Agent Advances pursuant to the terms of Section 1.2(i).

(ii) At the request of Agent, the Borrowers shall execute and deliver to each Lender that so requests a note to evidence the Revolving Loan of that Lender. Each such note shall be in the principal amount of the Lender's Pro Rata Share of the Revolving Loan Commitments, dated the date hereof and substantially in the form of Exhibit A (each a "Revolving Loan Note" and, collectively, the "Revolving Loan Notes") This Agreement and each Revolving Loan Note, if applicable, shall evidence the obligation of the Borrowers to pay the outstanding and utilized amount of each Lender's Pro Rata Share of the Revolving Loan Commitments, or, if less, such Lender's Pro Rata Share of the aggregate unpaid principal amount of all Revolving Loans to the Borrowers together with interest thereon as prescribed in Section 1.2. The entire unpaid balance of the Revolving Loan and all other

non-contingent Obligations shall be immediately due and payable in full in immediately available funds on the Termination Date.

(b) Procedure for Borrowing.

(i) Each Borrowing shall be made upon a Borrower's irrevocable written notice delivered to the Agent in the form of a notice of borrowing ("Notice of Borrowing"), which must be received by the Agent prior to (x) 12:00 noon (Charlotte, North Carolina time) three Business Days prior to the requested Funding Date, in the case of LIBOR Rate Loans and (y) 11:00 a.m. (Charlotte, North Carolina time) on the requested Funding Date, in the case of Base Rate Loans, specifying:

(A) the amount of the Borrowing, which in the case of a LIBOR Rate Loan must equal or exceed \$3,000,000 (and increments of \$1,000,000 in excess of such amount);

(B) the requested Funding Date, which must be a Business Day;

(C) whether the Revolving Loans requested are to be Base Rate Revolving Loans or LIBOR Revolving Loans (and if not specified, it shall be deemed a request for a Base Rate Revolving Loan); and

(D) the duration of the Interest Period for LIBOR Revolving Loans (and if not specified, it shall be deemed a request for an Interest Period of one month);

provided, however, that with respect to the Borrowing to be made on the Closing Date, such Borrowings will consist of Base Rate Revolving Loans only.

(ii) In lieu of delivering a Notice of Borrowing, a Borrower may give the Agent telephonic notice of such request for advances to the Designated Account on or before the deadline set forth above. The Agent at all times shall be entitled to rely on such telephonic notice in making such Revolving Loans, regardless of whether any written confirmation is received.

(iii) No Borrower shall have the right to request a LIBOR Rate Loan while a Default or Event of Default has occurred and is continuing.

(iv) Notwithstanding any language to the contrary in this Section, each Borrowing that is to be an Ex-Im Bank Revolving Loan must be requested in writing on the form of borrowing notice attached hereto as Exhibit D-1 and must be delivered to the Agent's Export Finance Department at the address set forth in Section 14.8 hereof.

(c) Reliance upon Authority. Prior to the Closing Date, the Borrowers shall deliver to the Agent, a notice setting forth the account of the Borrowers ("Designated Account") to which the Agent is authorized to transfer the proceeds of the Revolving Loans requested hereunder. The Borrowers may designate a replacement account from time to time by written notice. All such Designated Accounts must be

reasonably satisfactory to the Agent. The Agent is entitled to rely conclusively on any person's request for Revolving Loans on behalf of the Borrowers, so long as the proceeds thereof are to be transferred to the Designated Account. The Agent has no duty to verify the identity of any individual representing himself or herself as a person authorized by the Borrowers to make such requests on its behalf.

(d) No Liability. The Agent shall not incur any liability to the Borrowers as a result of acting upon any notice referred to in Sections 1.2(b) and (c), which the Agent believes in good faith to have been given by an officer or other person duly authorized by

the Borrowers to request Revolving Loans on its behalf. The crediting of Revolving Loans to the Designated Account conclusively establishes the obligation of the Borrowers to repay such Revolving Loans as provided herein.

(e) Notice Irrevocable. Any Notice of Borrowing (or telephonic notice in lieu thereof) made pursuant to Section 1.2(b) shall be irrevocable. The Borrowers shall be bound to borrow the funds requested therein in accordance therewith.

(f) Agent's Election. Promptly after receipt of a Notice of Borrowing (or telephonic notice in lieu thereof), the Agent shall elect to have the terms of Section 1.2(g) or the terms of Section 1.2(h) apply to such requested Borrowing. If the Bank declines in its sole discretion to make a Non-Ratable Loan pursuant to Section 1.2(h) or an Ex-Im Bank Revolving Loan pursuant to Section 1.2(j), the terms of Section 1.2(g) shall apply to the requested Borrowing.

(g) Making of Revolving Loans. If Agent elects to have the terms of this Section 1.2(g) apply to a requested Borrowing, then promptly after receipt of a Notice of Borrowing or telephonic notice in lieu thereof, the Agent shall notify the Lenders by telecopy, telephone or e-mail of the requested Borrowing. Each Lender shall transfer its Pro Rata Share of the requested Borrowing available to the Agent in immediately available funds, to the account from time to time designated by Agent, not later than 12:00 noon (Charlotte, North Carolina time) on the applicable Funding Date. After the Agent's receipt of all proceeds of such Revolving Loans, the Agent shall make the proceeds of such Revolving Loans available to the Borrowers on the applicable Funding Date by transferring same day funds to the Borrowers' Designated Account; provided, however, that the amount of Revolving Loans so made on any date, shall not exceed the Availability on such date.

(h) Making of Non-Ratable Loans.

(i) If Agent elects, with the consent of the Bank, to have the terms of this Section 1.2(h) apply to a requested Borrowing, the Bank shall make a Revolving Loan in the amount of that Borrowing available to the Borrowers on the applicable Funding Date by transferring same day funds to Borrowers' Designated Account. Each Revolving Loan made solely by the Bank pursuant to this Section is herein referred to as a "Non-Ratable Loan", and such Revolving Loans are collectively referred to as the "Non-Ratable Loans." Each Non-Ratable Loan shall be subject to all the terms and conditions applicable to other Revolving Loans except that all payments thereon shall be payable to the Bank solely for its own account. The aggregate amount of Non-Ratable Loans outstanding at any time shall not exceed \$5,000,000. The Agent shall not request the Bank to make any Non-Ratable Loan if (A) the Agent has received written notice from any Lender that one or more of the applicable conditions precedent set forth in Article 8

will not be satisfied on the requested Funding Date for the applicable Borrowing, or (B) the requested Borrowing would exceed Availability on that Funding Date.

(ii) The Non-Ratable Loans shall be secured by the Agent's Liens in and to the Collateral and shall constitute Base Rate Revolving Loans and Obligations hereunder. Upon Settlement of such Non-Ratable Loans pursuant to Section 12.15 hereof, such Loans shall constitute Revolving Loans for all purposes hereunder, including, without limitation, Section 2.2(a)(i) hereof.

(i) Agent Advances.

(i) Subject to the limitations set forth below, the Agent is authorized by the Borrowers and the Lenders, from time to time in the Agent's sole discretion, (A) after the occurrence of a Default or an Event of Default, or (B) at any time that any of the other conditions precedent set forth in Article 8 have not been satisfied, to make Base Rate Revolving Loans to the Borrowers on behalf of the Lenders in an aggregate amount outstanding at any time not to exceed 10% of the Borrowing Base but not in excess of the Maximum Revolver Amount which the Agent, in its reasonable business judgment, deems necessary or desirable (1) to preserve or protect the Collateral, or any portion thereof or (2) to pay any other amount chargeable to the Borrowers pursuant to the terms of this Agreement, including costs, fees and expenses as described in Section 14.7 (any of such advances are herein referred to as "Agent Advances"); provided, that the Majority Lenders may at any time revoke the Agent's authorization to make Agent Advances. Any such revocation must be in writing and shall become effective prospectively upon the Agent's receipt thereof. Agent Advances shall not be made as Ex-Im Bank Revolving Loans.

(ii) The Agent Advances shall be secured by the Agent's Liens in and to the Collateral and shall constitute Base Rate Revolving Loans and Obligations hereunder.

(j) Making of Ex-Im Bank Revolving Loans.

(i) If Agent elects, with the consent of the Bank, to have the terms of this Section 1.2(j) apply to a requested Borrowing and if all other conditions precedent thereto, including without limitation, the qualification of such Revolving Loan as an Ex-Im Bank Guaranteed Loan under the Ex-Im Bank Working Capital Guarantee Program, have been satisfied, the Bank shall make a Revolving Loan in the amount of that Borrowing available to the Borrowers on the applicable Funding Date by transferring same day funds to the Borrowers' Designated Account. Each Revolving Loan made solely by the Bank pursuant to this Section, or any Revolving Loan made under this Agreement that qualifies as an Ex-Im Bank Guaranteed Loan under the Borrowers' Ex-Im Agreement, is herein referred to as an "Ex-Im Bank Revolving Loan", and such Revolving Loans are collectively referred to as the "Ex-Im Bank Revolving Loans". Each Ex-Im Bank Revolving Loan shall be subject to all the terms and conditions applicable to other Revolving Loans, except to the extent of the provisions of the

Borrowers' Ex-Im Agreement, which shall control in the event

of any inconsistency. The aggregate amount of Ex-Im Bank Revolving Loans outstanding at any time shall not exceed the limitation set forth in clause (a)(v) of the definition of "Borrowing Base". The Agent shall not request the Bank to make any Ex-Im Bank Revolving Loan if (1) the Agent has received written notice from any Lender that one or more of the applicable conditions precedent set forth in Article 8 will not be satisfied on the requested Funding Date for the applicable Borrowing, or (2) the requested Borrowing would exceed Availability on that Funding Date.

(ii) The Ex-Im Bank Revolving Loans shall be secured by the Agent's Liens in and to the Collateral and shall constitute Base Rate Revolving Loans or LIBOR Rate Loans, as the case may be, and Obligations hereunder and shall be guaranteed by the Ex-Im Bank to the extent provided in the Borrowers' Ex-Im Bank Agreement.

1.3 Letters of Credit.

(a) Agreement to Issue or Cause To Issue. Subject to the terms and conditions of this Agreement, the Agent agrees (i) to cause the Letter of Credit Issuer to issue for the account of the Borrowers one or more commercial/documentary and standby letters of credit ("Letter of Credit") and/or (ii) to provide credit support or other enhancement to a Letter of Credit Issuer acceptable to Agent, which issues a Letter of Credit for the account of the Borrowers (any such credit support or enhancement being herein referred to as a "Credit Support") from time to time during the term of this Agreement.

(b) Amounts; Outside Expiration Date. The Agent shall not have any obligation to issue or cause to be issued any Letter of Credit or to provide Credit Support for any Letter of Credit at any time if: (i) the maximum face amount of the requested Letter of Credit is greater than the Unused Letter of Credit Subfacility at such time; (ii) the maximum undrawn amount of the requested Letter of Credit and all commissions, fees, and charges due from the Borrowers in connection with the opening thereof would exceed Availability at such time; or (iii) such Letter of Credit has an expiration date less than 30 days prior to the Stated Termination Date or more than 12 months from the date of issuance for standby letters of credit and 180 days for documentary letters of credit. With respect to any Letter of Credit which contains any "evergreen" or automatic renewal provision, each Lender shall be deemed to have consented to any such extension or renewal unless any such Lender shall have provided to the Agent, written notice that it declines to consent to any such extension or renewal at least thirty (30) days prior to the date on which the Letter of Credit Issuer is entitled to decline to extend or renew the Letter of Credit. If all of the requirements of this Section 1.3 are met and no Default or Event of Default has occurred and is continuing, no Lender shall decline to consent to any such extension or renewal.

(c) Other Conditions. In addition to conditions precedent contained in Article 8, the obligation of the Agent to issue or to cause to be issued any Letter of Credit or to provide Credit Support for any Letter of Credit is subject to the following conditions precedent having been satisfied in a manner reasonably satisfactory to the Agent:

(i) The Borrowers shall have delivered to the Letter of Credit Issuer, at such times and in such manner as such Letter of Credit Issuer may prescribe, an application in form and substance satisfactory to such Letter of Credit Issuer and reasonably satisfactory to the Agent for the issuance of the Letter of Credit and such other documents as may be required

pursuant to the terms thereof, and the form, terms and purpose of the proposed Letter of Credit shall be reasonably satisfactory to the Agent and the Letter of Credit Issuer; and

(ii) As of the date of issuance, no order of any court, arbitrator or Governmental Authority shall purport by its terms to enjoin or restrain money center banks generally from issuing letters of credit of the type and in the amount of the proposed Letter of Credit, and no law, rule or regulation applicable to money center banks generally and no request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over money center banks generally shall prohibit, or request that the proposed Letter of Credit Issuer refrain from, the issuance of letters of credit generally or the issuance of such Letters of Credit.

(d) Issuance of Letters of Credit.

(i) Request for Issuance. A Borrower requesting a letter of credit must notify the Agent of a requested Letter of Credit at least three (3) Business Days prior to the proposed issuance date. Such notice shall be irrevocable and must specify the original face amount of the Letter of Credit requested, the Business Day of issuance of such requested Letter of Credit, whether such Letter of Credit may be drawn in a single or in partial draws, the Business Day on which the requested Letter of Credit is to expire, the purpose for which such Letter of Credit is to be issued, and the beneficiary of the requested Letter of Credit. The Borrowers shall attach to such notice the proposed form of the Letter of Credit.

(ii) Responsibilities of the Agent; Issuance. As of the Business Day immediately preceding the requested issuance date of the Letter of Credit, the Agent shall determine the amount of the applicable Unused Letter of Credit Subfacility and Availability. If (x) the face amount of the requested Letter of Credit is less than the Unused Letter of Credit Subfacility and (y) the amount of such requested Letter of Credit and all commissions, fees, and charges due from the Borrowers in connection with the opening thereof would not exceed Availability, the Agent shall cause the Letter of Credit Issuer to issue the requested Letter of Credit on the requested issuance date so long as the other conditions hereof are met.

(iii) No Extensions or Amendment. The Agent shall not be obligated to cause the Letter of Credit Issuer to extend or amend any Letter of Credit issued pursuant hereto unless the requirements of this Section 1.3 are met as though a new Letter of Credit were being requested and issued.

(e) Payments Pursuant to Letters of Credit. Each Borrower agrees to reimburse immediately the Letter of Credit Issuer for any draw under any Letter of Credit and the Agent for the account of the Lenders upon any payment pursuant to any Credit Support, and to pay the Letter of Credit Issuer the amount of all other charges and fees payable to the Letter of Credit Issuer in connection with any Letter of Credit immediately when due, irrespective of any claim, setoff, defense or other right which any Borrower may have at any time against the Letter of Credit Issuer or any other Person. Each drawing under any Letter of Credit shall constitute a request by a Borrower to the Agent for a Borrowing of a Base Rate Revolving Loan in the amount of such drawing. The Funding Date with respect to such borrowing shall be the date of such drawing.

(f) Indemnification; Exoneration; Power of Attorney.

(i) Indemnification. In addition to amounts payable as elsewhere provided in this Section 1.3, the Borrowers agrees to protect, indemnify, pay and save the Lenders and the Agent harmless from and against any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable outside attorneys' fees) which any Lender or the Agent (other than a Lender in its capacity as Letter of Credit Issuer) may incur or be subject to as a consequence, direct or indirect, of the issuance of any Letter of Credit or the provision of any Credit Support or enhancement in connection therewith. The Borrowers' obligations under this Section shall survive payment of all other Obligations.

(ii) Assumption of Risk by the Borrowers. As among the Borrowers, the Lenders, and the Agent, the Borrowers assume all risks of the acts and omissions of, or misuse of any of the Letters of Credit by, the respective beneficiaries of such Letters of Credit. In furtherance and not in limitation of the foregoing, the Lenders and the Agent shall not be responsible for: (A) the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any Person in connection with the application for and issuance of and presentation of drafts with respect to any of the Letters of Credit, even if it should prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (B) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (C) the failure of the beneficiary of any Letter of Credit to comply duly with conditions required in order to draw upon such Letter of Credit; (D) errors, omissions, interruptions, or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (E) errors in interpretation of

technical terms; (F) any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any Letter of Credit or of the proceeds thereof; (G) the misapplication by the beneficiary of any Letter of Credit of the proceeds of any drawing under such Letter of Credit; (H) any consequences arising from causes beyond the control of the Lenders or the Agent, including any act or omission, whether rightful or wrongful, of any present or future de jure or de facto Governmental Authority or (I) the Letter of Credit Issuer's honor of a draw for which the draw or any certificate fails to comply in any respect with the terms of the Letter of Credit. None of the foregoing shall affect, impair or prevent the vesting of any rights or powers of the Agent or any Lender under this Section 1.4(f).

(iii) Exoneration. Without limiting the foregoing, no action or omission whatsoever by Agent or any Lender (excluding any Lender in its capacity as a Letter of Credit Issuer) shall result in any liability of Agent or any Lender to the Borrowers, or relieve the Borrowers of any of their obligations hereunder to any such Person.

(iv) Rights Against Letter of Credit Issuer. Nothing contained in this Agreement is intended to limit the

Borrowers' rights, if any, with respect to the Letter of Credit Issuer which arise as a result of the letter of credit application and related documents executed by and between the Borrowers and the Letter of Credit Issuer.

(v) Account Party. The Borrowers hereby authorize and direct any Letter of Credit Issuer to name any requesting Borrower as the "Account Party" therein and to deliver to the Agent all instruments, documents and other writings and property received by the Letter of Credit Issuer pursuant to the Letter of Credit, and to accept and rely upon the Agent's instructions and agreements with respect to all matters arising in connection with the Letter of Credit or the application therefor.

(g) Supporting Letter of Credit; Cash Collateral. If, notwithstanding the provisions of Section 1.3(b) and Section 10.1, any Letter of Credit or Credit Support is outstanding upon the termination of this Agreement, then upon such termination the Borrowers shall deposit with the Agent, for the ratable benefit of the Agent and the Lenders, with respect to each Letter of Credit or Credit Support then outstanding, either (i) cash in a cash collateral account in an amount equal to the greatest amount for which such Letter of Credit or such Credit Support may be drawn plus any fees and expenses associated with such Letter of Credit or such Credit Support, under which collateral account the Agent is entitled to draw amounts necessary to reimburse the Agent and the Lenders for payments to be made by the Agent and the Lenders under such Letter of Credit or Credit Support and any fees and expenses associated with such Letter of Credit or Credit Support or (ii) a standby letter of credit (a "Supporting Letter of Credit") in form and substance satisfactory to the Agent, issued by an issuer satisfactory to the Agent in an amount equal to the greatest amount for which such Letter of Credit or such Credit

Support may be drawn plus any fees and expenses associated with such Letter of Credit or such Credit Support, under which Supporting Letter of Credit the Agent is entitled to draw amounts necessary to reimburse the Agent and the Lenders for payments to be made by the Agent and the Lenders under such Letter of Credit or Credit Support and any fees and expenses associated with such Letter of Credit or Credit Support. Such cash collateral account or Supporting Letter of Credit shall be held by the Agent, for the ratable benefit of the Agent and the Lenders, as security for, and to provide for the payment of, the aggregate undrawn amount of such Letters of Credit or such Credit Support remaining outstanding.

1.4 Bank Products.

A Borrower may request and the Agent may, in its sole and absolute discretion, arrange for such Borrower to obtain from the Bank or the Bank's Affiliates Bank Products although such Borrower is not required to do so. If Bank Products are provided by an Affiliate of the Bank, the Borrowers agree to indemnify and hold the Agent, the Bank and the Lenders harmless from any and all costs and obligations now or hereafter incurred by the Agent, the Bank or any of the Lenders which arise from any indemnity given by the Agent to its Affiliates related to such Bank Products; provided, however, nothing contained herein is intended to limit any Borrower's rights, with respect to the Bank or its Affiliates, if any, which arise as a result of the execution of documents by and between any such Borrower or Borrowers and the Bank which relate to Bank Products. The agreement contained in this Section shall survive termination of this Agreement. The Borrowers acknowledge and agree that the obtaining of Bank Products from the Bank or the Bank's Affiliates (a) is in the sole and absolute discretion of the Bank or the Bank's Affiliates, and (b) is subject to all rules and regulations of the Bank or the Bank's Affiliates. Each Borrower agrees that

the Bank is not obligated to provide such services. This paragraph in no way prohibits any of the Borrowers from obtaining other products from other Lenders so long as such transaction does not otherwise violate this Agreement.

ARTICLE 2
INTEREST AND FEES

2.1 Interest.

(a) Interest Rates. All outstanding Obligations shall bear interest on the unpaid principal amount thereof (including, to the extent permitted by law, on interest thereon not paid when due) from the date made until paid in full in immediately available funds at a rate determined by reference to the Base Rate or the LIBOR Rate plus the Applicable Margins as set forth below, but not to exceed the Maximum Rate. If at any time Loans are outstanding with respect to which a Borrower has not delivered to the Agent a notice specifying the basis for determining the interest rate applicable thereto in accordance herewith, those Loans shall bear interest at a rate determined by reference to the Base Rate until notice to the contrary has been given to the Agent in accordance with this Agreement and such notice has become effective. Except as otherwise provided herein, the outstanding Obligations shall bear interest as follows:

(i) For all Base Rate Revolving Loans and other Obligations (other than LIBOR Rate Loans) at a fluctuating per annum rate equal to the Base Rate plus the Applicable Margin;

(ii) For all LIBOR Revolving Loans at a per annum rate equal to the LIBOR Rate plus the Applicable Margin.

Each change in the Base Rate shall be reflected in the interest rate applicable to Base Rate Loans as of the effective date of such change. All interest charges shall be computed on the basis of a year of 360 days and actual days elapsed (which results in more interest being paid than if computed on the basis of a 365-day year). The Borrowers shall pay to the Agent, for the ratable benefit of Lenders, interest accrued on all Base Rate Loans in arrears on the first day of each month hereafter and on the Termination Date. The Borrowers shall pay to the Agent, for the ratable benefit of Lenders, interest on all LIBOR Rate Loans in arrears on each LIBOR Interest Payment Date.

(b) Default Rate. If any Default or Event of Default occurs and is continuing and the Agent or the Required Lenders in their discretion so elect, then, while any such Default or Event of Default is continuing, all of the Obligations shall bear interest at the Default Rate applicable thereto, except in the case of an Event of Default under Section 9.1(e), (f), (g) or (h) of this Agreement in each of which cases all of the Obligations shall automatically and immediately bear interest at the Default Rate applicable thereto.

2.2 Continuation and Conversion Elections.

(a) The Borrowers may:

(i) elect, as of any Business Day, in the case of Base Rate Loans to convert any Base Rate Loans (or any part thereof in an amount not less than \$3,000,000, or that is in an integral multiple of \$1,000,000 in excess thereof) into LIBOR Rate Loans; or

(ii) elect, as of the last day of the applicable Interest Period, to continue any LIBOR Rate Loans having Interest Periods expiring on such day (or any part thereof in an amount not less than \$1,000,000, or that is in an integral multiple of \$1,000,000 in excess thereof);

provided, that if at any time the aggregate amount of LIBOR Rate Loans in respect of any Borrowing is reduced, by payment, prepayment, or conversion of part thereof to be less than \$1,000,000, such LIBOR Rate Loans shall automatically convert into Base Rate Loans; provided further that if the notice shall fail to specify the duration of the Interest Period, such Interest Period shall be one month.

(b) The Borrowers shall deliver a notice of continuation/conversion ("Notice of Continuation/Conversion") to the Agent not later than 12:00 noon (Charlotte, North Carolina time) at least three (3) Business Days in advance of the Continuation/Conversion Date, if the Loans are to be converted into or continued as LIBOR Rate Loans and specifying:

- (i) the proposed Continuation/Conversion Date;
- (ii) the aggregate amount of Loans to be converted or renewed;
- (iii) the type of Loans resulting from the proposed conversion or continuation; and
- (iv) the duration of the requested Interest Period, provided, however, the Borrowers may not select an Interest Period that ends after the Stated Termination Date.

(c) If upon the expiration of any Interest Period applicable to LIBOR Rate Loans, the Borrowers have failed to select timely a new Interest Period to be applicable to LIBOR Rate Loans or if any Default or Event of Default then exists, the Borrowers shall be deemed to have elected to convert such LIBOR Rate Loans into Base Rate Loans effective as of the expiration date of such Interest Period.

(d) The Agent will promptly notify each Lender of its receipt of a Notice of Continuation/Conversion. All conversions and continuations shall be made ratably according to the respective outstanding principal amounts of the Loans with respect to which the notice was given held by each Lender.

(e) There may not be more than six (6) different LIBOR Rate Loans in effect hereunder at any time.

2.3 Maximum Interest Rate.

In no event shall any interest rate provided for hereunder exceed the maximum rate legally chargeable by any Lender under applicable law for such Lender with respect to loans of the type provided for hereunder (the "Maximum Rate"). If, in any month, any interest rate, absent such limitation, would have exceeded the Maximum Rate, then the interest rate for that month shall be the Maximum Rate, and, if in future months, that interest rate would otherwise be less than the Maximum Rate, then that interest rate shall remain at the Maximum Rate until such time as the amount of interest paid hereunder equals the amount of interest which would have been paid if the same had not been limited by the Maximum Rate. In the event that, upon payment in full of the Obligations, the total amount of interest paid or accrued under the terms of this Agreement is less than the total amount of interest which would, but for this Section 2.3, have been paid or accrued if the interest rate otherwise set forth in this Agreement had at all times been in effect, then the Borrowers shall, to the extent permitted by applicable law, pay the Agent, for the account of the Lenders, an amount equal to the excess of (a) the lesser of (i) the

amount of interest which would have been charged if the Maximum Rate had, at all times, been in effect or (ii) the amount of interest which would have accrued had the interest rate otherwise set forth in this Agreement, at all times, been in effect over (b) the amount of interest actually paid or accrued under this Agreement. If a court of competent jurisdiction determines that the Agent and/or any Lender has received interest and other charges hereunder in excess of the Maximum Rate, such excess shall be deemed received on account of, and shall automatically be applied to reduce, the Obligations other than interest, in the inverse order of maturity, and if there are no Obligations outstanding, the Agent and/or such Lender shall refund to the Borrowers such excess.

2.4 Agent Fees.

The Borrowers agree to pay the Agent on the Closing Date the arrangement and closing fees (the "Agent Fees") as set forth in the Fee Letter.

2.5 Unused Line Fee.

On the first day of each month and on the Termination Date the Borrowers agree to pay to the Agent, for the account of the Lenders, in accordance with their respective Pro Rata Shares, an unused line fee (the "Unused Line Fee") equal to the amount by which the Maximum Revolver Amount exceeded the sum of the average daily outstanding amount of Revolving Loans and the average daily undrawn face amount of outstanding Letters of Credit, during the immediately preceding month or shorter period if calculated for the first month hereafter or on the Termination Date times (i) 0.25% if the average amount of the Aggregate Revolver Outstandings for the preceding month exceeded \$100,000,000, (ii) 0.375% if the average amount of the Aggregate Revolver Outstandings for the preceding month exceeded \$50,000,000 but was less than or equal to \$100,000,000 and (iii) 0.50% if the average amount of the Aggregate Revolver Outstanding for the preceding month was less than or equal to \$50,000,000. The Unused Line Fee shall be computed on the basis of a 360-day year for the actual number of days elapsed. All principal payments received by the Agent shall be deemed to be credited to the Borrowers' Loan Account immediately upon receipt for purposes of calculating the Unused Line Fee pursuant to this Section 2.5.

2.6 Letter of Credit Fee.

The Borrowers agree to pay to the Agent, for the account of the Lenders, in accordance with their respective Pro Rata Shares, for each Letter of Credit, a fee (the "Letter of Credit Fee") equal to the Letter of Credit Fee Percentage per annum in effect from time to time and to Agent for the benefit of the Letter of Credit Issuer a fronting fee of one eighth of one percent (0.125%) per annum of the undrawn face amount of each Letter of Credit, and to the Letter of Credit Issuer, all out-of-pocket costs, fees and expenses incurred by the Letter of Credit Issuer in connection with the application for, processing of, issuance of, or amendment to any Letter of Credit, which costs, fees and expenses shall include a "fronting fee" payable to the Letter of Credit Issuer. The Letter of Credit Fee shall be payable monthly in arrears on the first day of each month following any month in which a Letter of Credit is outstanding and on the

Termination Date. The Letter of Credit Fee shall be computed on the basis of a 360-day year for the actual number of days elapsed.

ARTICLE 3 PAYMENTS AND PREPAYMENTS

3.1 Revolving Loans.

The Borrowers shall repay the outstanding principal balance of the Revolving Loans, plus all accrued but unpaid interest thereon, on the Termination Date. The Borrowers may prepay Revolving Loans at any time without

premium or penalty, and reborrow subject to the terms of this Agreement. In addition, and without limiting the generality of the foregoing, upon demand the Borrowers shall pay to the Agent, for account of the Lenders, the amount, without duplication, by which the Aggregate Revolver Outstandings exceeds the lesser of the Borrowing Base or the Maximum Revolver Amount.

3.2 Termination of Facility.

The Borrowers may terminate this Agreement upon at least ten (10) Business Days' notice to the Agent and the Lenders, upon (a) the payment in full of all outstanding Revolving Loans, together with accrued interest thereon, and the cancellation and return of all outstanding Letters of Credit or issuance of a supporting letter of credit, in form and substance acceptable to the Agent and the Letter of Credit Issuer in their sole discretion, pursuant to Section 1.3(g), (b) the payment of the early termination fee set forth below, (c) the payment in full in immediately available funds of all reimbursable expenses and other Obligations, and (d) with respect to any LIBOR Rate Loans prepaid, payment of the amounts due under Section 4.4, if any. If this Agreement is terminated by the Borrowers at any time prior to the Stated Termination Date, the Borrowers shall pay to the Agent, for the account of the Lenders, an early termination fee determined in accordance with the following table:

Period during which early termination occurs	Early Termination Fee
-----	-----
On or prior to the first Anniversary Date	1% of the Total Facility
After the first Anniversary Date but on or prior to the second Anniversary Date	0.75% of the Total Facility
After the second Anniversary Date but prior to the Stated Termination Date	0.50% of the Total Facility

Notwithstanding the foregoing, the Borrowers, upon notice to the Agent and the Lenders received no later than October 31, 2002, may permanently reduce the amount of the Maximum Revolver Amount in integral multiples of \$10,000,000; provided, that (i) after giving effect to such reduction, the Maximum Revolver Amount shall not be less than \$75,000,000, (ii) the

Aggregate Revolver Outstandings immediately prior to or concurrent with such permanent reduction shall not be greater than the lesser of the Borrowing Base or the Maximum Revolver Amount as so reduced and (iii) with respect to any LIBOR Rate Loans prepaid, payment of the amounts due under Section 4.4, if any. Such reduction shall be effective January 1, 2003 and no early termination fees shall be due in connection with such reduction.

3.3 [Reserved.]

3.4 [Reserved.]

3.5 LIBOR Rate Loan Prepayments.

In connection with any prepayment, if any LIBOR Rate Loans are prepaid prior to the expiration date of the Interest Period applicable thereto, the Borrowers shall pay to the Lenders the amounts described in Section 4.4, unless the Lenders agree to waive such payment.

3.6 Payments by the Borrowers.

(a) All payments to be made by the Borrowers shall be made without set-off, recoupment or counterclaim. Except as otherwise expressly provided herein, all payments by the Borrowers shall be made to the Agent for the account of the Lenders, at the account designated

by the Agent and shall be made in Dollars and in immediately available funds, no later than 12:00 noon (Charlotte, North Carolina time) on the date specified herein. Any payment received by the Agent after such time shall be deemed (for purposes of calculating interest only) to have been received on the following Business Day and any applicable interest shall continue to accrue.

(b) Subject to the provisions set forth in the definition of "Interest Period", whenever any payment is due on a day other than a Business Day, such payment shall be due on the following Business Day, and such extension of time shall in such case be included in the computation of interest or fees, as the case may be.

3.7 Payments as Revolving Loans.

At the election of Agent, all payments of principal, interest, reimbursement obligations in connection with Letters of Credit and Credit Support for Letters of Credit, fees, premiums, reimbursable expenses and other sums payable hereunder, may be paid from the proceeds of Revolving Loans made hereunder. The Borrowers hereby irrevocably authorize the Agent to charge the Loan Account for the purpose of paying all amounts from time to time due hereunder and agrees that all such amounts charged shall constitute Revolving Loans (including Ex-Im Bank Revolving Loans, Non-Ratable Loans and Agent Advances).

3.8 Apportionment, Application and Reversal of Payments.

Principal and interest payments shall be apportioned ratably among the Lenders (according to the unpaid principal balance of the Loans to which such payments relate held by each Lender) and payments of the fees shall, as applicable, be apportioned ratably among the Lenders, except for fees payable solely to Agent and the Letter of Credit Issuer and except as provided in Section 11.1(b). All payments shall be remitted to the Agent and all such payments not relating to principal or interest of specific Loans, or not constituting payment of specific fees, and all proceeds of Accounts or other Collateral received by the Agent, shall be applied, ratably, subject to the provisions of this Agreement, first, to pay any fees, indemnities or expense reimbursements then due to the Agent from the Borrowers; second, to pay any fees or expense reimbursements then due to the Lenders from the Borrowers; third, to pay interest due in respect of all Loans, including Ex-Im Bank Revolving Loans, Non-Ratable Loans and Agent Advances; fourth, to pay or prepay principal of the Non-Ratable Loans and Agent Advances and Ex-Im Bank Revolving Loans; fifth, to pay or prepay principal of the Revolving Loans (other than Ex-Im Bank Revolving Loans, Non-Ratable Loans and Agent Advances) and unpaid reimbursement obligations in respect of Letters of Credit; sixth, to pay an amount to Agent equal to all outstanding Letter of Credit Obligations to be held as cash collateral for such Obligations; and seventh, to the payment of any other Obligation including any amounts relating to Bank Products due to the Agent or any Lender or any affiliate of a Lender by any Borrower. Notwithstanding anything to the contrary contained in this Agreement, unless so directed by a Borrower, or unless an Event of Default has occurred and is continuing, neither the Agent nor any Lender shall apply any payments which it receives to any LIBOR Rate Loan, except (a) on the expiration date of the Interest Period applicable to any such LIBOR Rate Loan, or (b) in the event, and only to the extent, that there are no outstanding Base Rate Loans and, in any event, the Borrowers shall pay LIBOR breakage losses in accordance with Section 4.4. The Agent and the Lenders shall have the continuing and exclusive right to apply and reverse and reapply any and all such proceeds and payments to any portion of the Obligations.

3.9 Indemnity for Returned Payments.

If after receipt of any payment which is applied to the payment of all or any part of the Obligations, the Agent, any Lender, the Bank or any Affiliate of the Bank is for any reason compelled to surrender such payment or proceeds to

any Person because such payment or application of proceeds is invalidated, declared fraudulent, set aside, determined to be void or voidable as a preference, impermissible setoff, or a diversion of trust funds, or for any other reason, then the Obligations or part thereof intended to be satisfied shall be revived and continued and this Agreement shall continue in full force as if such payment or proceeds had not been received by the Agent or such Lender and the Borrowers shall be liable to pay to the Agent and the Lenders, and hereby does indemnify the Agent and the Lenders and hold the Agent and the Lenders harmless for the amount of such payment or proceeds surrendered. The provisions of this Section 3.9 shall be and remain effective notwithstanding any contrary action which may have been taken by the Agent or any Lender in reliance upon such payment or application of proceeds, and any such contrary action so taken shall be without prejudice to the Agent's and the Lenders' rights under this Agreement and shall be deemed to have been conditioned upon such

payment or application of proceeds having become final and irrevocable. The provisions of this Section 3.9 shall survive the termination of this Agreement.

3.10 Agent's and Lenders' Books and Records; Monthly Statements.

The Agent shall record the principal amount of the Loans owing to each Lender, the undrawn face amount of all outstanding Letters of Credit and the aggregate amount of unpaid reimbursement obligations outstanding with respect to the Letters of Credit from time to time on its books. In addition, each Lender may note the date and amount of each payment or prepayment of principal of such Lender's Loans in its books and records. Failure by Agent or any Lender to make such notation shall not affect the obligations of the Borrowers with respect to the Loans or the Letters of Credit. The Borrowers agree that the Agent's and each Lender's books and records showing the Obligations and the transactions pursuant to this Agreement and the other Loan Documents shall be admissible in any action or proceeding arising therefrom, and shall constitute rebuttably presumptive proof thereof, irrespective of whether any Obligation is also evidenced by a promissory note or other instrument. The Agent will provide to the Borrowers a monthly statement of Loans, payments, and other transactions pursuant to this Agreement. Such statement shall be deemed correct, accurate, and binding on the Borrowers and an account stated (except for reversals and reapplications of payments made as provided in Section 3.8 and corrections of errors discovered by the Agent), unless a Borrower notifies the Agent in writing to the contrary within thirty (30) days after such statement is rendered. In the event a timely written notice of objections is given by any Borrower, only the items to which exception is expressly made will be considered to be disputed by the Borrowers.

ARTICLE 4 TAXES, YIELD PROTECTION AND ILLEGALITY

4.1 Taxes.

(a) Any and all payments by or on behalf of the Borrowers to each Lender or the Agent under this Agreement and any other Loan Document shall be made free and clear of, and without deduction or withholding for any Taxes. In addition, the Borrowers shall pay all Other Taxes.

(b) The Borrowers agree to indemnify and hold harmless each Lender and the Agent for the full amount of Taxes or Other Taxes (including any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section) paid by any Lender or the Agent in connection with this Agreement or any Loan Document and any liability (including penalties, interest, additions to tax and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. Payment under this indemnification shall be made within 30 days after the date such Lender or the Agent makes written demand therefor.

(c) If the Borrowers shall be required by law to deduct or withhold any Taxes or Other Taxes from or in respect of any sum payable hereunder to any Lender or the Agent, then:

(i) the sum payable shall be increased as necessary so that after making all required deductions and withholdings (including deductions and withholdings applicable to additional sums payable under this Section) such Lender or the Agent, as the case may be, receives an amount equal to the sum it would have received had no such deductions or withholdings been made;

(ii) the Borrowers shall make such deductions and withholdings;

(iii) the Borrowers shall pay the full amount deducted or withheld to the relevant taxing authority or other authority in accordance with applicable law; and

(iv) the Borrowers shall also pay to each Lender or the Agent for the account of such Lender, at the time interest is paid, all additional amounts which the respective Lender specifies as necessary to preserve the after-tax yield such Lender would have received if such Taxes or Other Taxes had not been imposed.

(d) At the Agent's request, within 30 days after the date of any payment by any Borrower of Taxes or Other Taxes, such Borrower shall furnish the Agent the original or a certified copy of a receipt evidencing payment thereof, or other evidence of payment satisfactory to the Agent.

(e) If the Borrowers are required to pay additional amounts to any Lender or the Agent pursuant to subsection (c) of this Section, then such Lender shall use reasonable efforts (consistent with legal and regulatory restrictions) to change the jurisdiction of its lending office so as to eliminate any such additional payment by the Borrowers which may thereafter accrue, if such change in the judgment of such Lender is not otherwise disadvantageous to such Lender.

4.2 Illegality.

(a) If any Lender determines that the introduction of any Requirement of Law, or any change in any Requirement of Law, or in the interpretation or administration of any Requirement of Law, has made it unlawful, or that any central bank or other Governmental Authority has asserted that it is unlawful, for any Lender or its applicable lending office to make LIBOR Rate Loans, then, on notice thereof by that Lender to the Borrowers through the Agent, any obligation of that Lender to make LIBOR Rate Loans shall be suspended until that Lender notifies the Agent and the Borrowers that the circumstances giving rise to such determination no longer exist.

(b) If a Lender determines that it is unlawful to maintain any LIBOR Rate Loan, the Borrowers shall, upon its receipt of notice of such fact and demand from such

Lender (with a copy to the Agent), prepay in full such LIBOR Rate Loans of that Lender then outstanding, together with interest accrued thereon, either on the last day of the Interest Period thereof, if that

Lender may lawfully continue to maintain such LIBOR Rate Loans to such day, or immediately, if that Lender may not lawfully continue to maintain such LIBOR Rate Loans. If the Borrowers are required to so prepay any LIBOR Rate Loans, then concurrently with such prepayment, the Borrowers shall borrow from the affected Lender, in the amount of such repayment, a Base Rate Loan.

4.3 Increased Costs and Reduction of Return.

(a) If any Lender determines that due to either (i) the introduction of or any change in the interpretation of any law or regulation or (ii) the compliance by that Lender with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to such Lender of agreeing to make or making, funding or maintaining any LIBOR Rate Loans, then the Borrowers shall be liable for, and shall from time to time, upon demand (with a copy of such demand to be sent to the Agent), pay to the Agent for the account of such Lender, additional amounts as are sufficient to compensate such Lender for such increased costs.

(b) If any Lender shall have determined that (i) the introduction of any Capital Adequacy Regulation, (ii) any change in any Capital Adequacy Regulation, (iii) any change in the interpretation or administration of any Capital Adequacy Regulation by any central bank or other Governmental Authority charged with the interpretation or administration thereof, or (iv) compliance by such Lender or any corporation or other entity controlling such Lender with any Capital Adequacy Regulation, affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation or other entity controlling such Lender and (taking into consideration such Lender's or such corporation's or other entity's policies with respect to capital adequacy and such Lender's desired return on capital) determines that the amount of such capital is increased as a consequence of its Commitments, loans, credits or obligations under this Agreement, then, upon demand of such Lender to any Borrower through the Agent, the Borrowers shall pay to such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender for such increase.

4.4 Funding Losses.

The Borrowers shall reimburse each Lender and hold each Lender harmless from any loss or expense which such Lender may sustain or incur as a consequence of:

(a) the failure of any Borrower to make on a timely basis any payment of principal of any LIBOR Rate Loan;

(b) the failure of any Borrower to borrow, continue or convert a Loan after such Borrower has given (or is deemed to have given) a Notice of Borrowing or a Notice of Continuation/Conversion; or

(c) the prepayment or other payment (including after acceleration thereof) of any LIBOR Rate Loans on a day that is not the last day of the relevant Interest Period, except in connection with prepayments or other payments made pursuant to Section 4.2 hereof;

including any such loss of anticipated profit and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain its LIBOR Rate Loans or from fees payable to terminate the deposits from which such funds were obtained.

4.5 Inability to Determine Rates.

If the Agent determines that for any reason adequate and reasonable means do not exist for determining the LIBOR Rate for any requested Interest Period with respect to a proposed LIBOR Rate Loan, or that the LIBOR Rate for any requested Interest Period with respect to a proposed LIBOR Rate Loan does not adequately and fairly reflect the cost to the Lenders of funding such Loan, the Agent will promptly so notify the Borrowers and each Lender. Thereafter, the obligation of the Lenders to make or maintain LIBOR Rate Loans hereunder shall be suspended until the Agent revokes such notice in writing. Upon receipt of such notice, the Borrowers may revoke any Notice of Borrowing or Notice of Continuation/Conversion then submitted by it. If the Borrowers do not revoke such Notice, the Lenders shall make, convert or continue the Loans, as proposed by the Borrowers, in the amount specified in the applicable notice submitted by the Borrowers, but such Loans shall be made, converted or continued as Base Rate Loans instead of LIBOR Rate Loans.

4.6 Certificates of Agent.

If any Lender claims reimbursement or compensation under this Article 4, Agent shall determine the amount thereof and shall deliver to the Borrowers (with a copy to the affected Lender) a certificate setting forth in reasonable detail the amount payable to the affected Lender, and such certificate shall be conclusive and binding on the Borrowers in the absence of manifest error.

4.7 Survival.

The agreements and obligations of the Borrowers in this Article 4 shall survive the payment of all other Obligations.

4.8 Mitigation; Mandatory Assignment.

Each Lender shall use reasonable efforts to avoid or mitigate any increased cost or suspension of the availability of an interest rate under Sections 4.1 through 4.5 above to the greatest extent practicable (including transferring the Loans to another lending office or Affiliate of a Lender) unless, in the reasonable opinion of such Lender, such efforts would be likely to have an adverse effect upon it. In the event a Lender makes a request to the Borrowers for additional payments in accordance with Section 4.1, 4.2, 4.3 or 4.4, then, provided that no

Default or Event of Default has occurred and is continuing at such time, the Borrowers may, at their own expense (such expense to include, without limitation, any transfer fee payable to the Agent under Section 11.2(a)) and in its sole discretion, require such Lender to transfer and assign in whole (but not in part), without recourse (in accordance with and subject to the terms and conditions of Section 11.2(a)), all of its interests, rights and obligations under this Agreement to an Eligible Assignee which shall assume such assigned obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (a) such assignment shall not conflict with any law, rule or regulation or order of any court or other Governmental Authority and (b) the Borrowers or such assignee shall have paid to the assigning Lender in immediately available funds the principal of and interest accrued to the date of such payment on the portion of the Loans hereunder held by such assigning Lender and all other amounts owed to such assigning Lender hereunder, including amounts owed pursuant to Sections 4.1 through 4.5 hereof.

ARTICLE 5

BOOKS AND RECORDS; FINANCIAL INFORMATION; NOTICES

5.1 Books and Records.

Each Borrower shall maintain, at all times, correct and complete books, records and accounts in which complete, correct and timely entries are made of its transactions in accordance with GAAP applied consistently with the audited Financial Statements required to be delivered pursuant to Section 5.2(a). Each

Borrower shall, by means of appropriate entries, reflect in such accounts and in all Financial Statements proper liabilities and reserves for all taxes and proper provision for depreciation and amortization of property and bad debts, all in accordance with GAAP. Each Borrower shall maintain at all times books and records pertaining to the Collateral in such detail, form and scope as the Agent or any Lender shall reasonably require, including, but not limited to, records of (a) all payments received and all credits and extensions granted with respect to the Accounts; (b) the return, rejection, repossession, stoppage in transit, loss, damage, or destruction of any Inventory; and (c) all other dealings affecting the Collateral.

5.2 Financial Information.

The Borrowers shall promptly furnish to each Lender, all such financial information as the Agent shall reasonably request. Without limiting the foregoing, the Borrowers will furnish to the Agent, in sufficient copies for distribution by the Agent to each Lender, in such detail as the Agent or the Lenders shall request, the following:

(a) As soon as available, but in any event not later than ninety (90) days after the close of each Fiscal Year, consolidated audited balance sheets, and income statements, cash flow statements and changes in stockholders' equity for the Parent and its consolidated Subsidiaries for such Fiscal Year, and the accompanying notes thereto, setting forth in each case in comparative form figures for the previous Fiscal Year, all in reasonable detail, fairly presenting the financial position and the results of operations of the Parent and its consolidated Subsidiaries as at the date thereof and for the Fiscal Year

then ended, and prepared in accordance with GAAP. Such statements shall be examined in accordance with generally accepted auditing standards by and, in the case of such statements performed on a consolidated basis, accompanied by a report thereon unqualified in any respect of independent certified public accountants selected by the Parent and reasonably satisfactory to the Agent. The Borrowers hereby authorize the Agent, during the existence of a Default or an Event of Default, to communicate directly with their certified public accountants and, by this provision, authorize those accountants to disclose to the Agent any and all financial statements and other supporting financial documents and schedules relating to the Borrowers and to discuss directly with the Agent the finances and affairs of the Borrowers.

(b) As soon as available, and in any event within 45 days after the close of each fiscal quarter of the Parent and its consolidated Subsidiaries, a consolidated balance sheet and income statement of the Parent and its consolidated Subsidiaries, as of the end of such fiscal quarter, together with related consolidated statements of operations and retained earnings and of cash flows for such fiscal quarter, in each case setting forth in comparative form consolidated figures for the corresponding period of the preceding Fiscal Year, all such financial information described above to be in reasonable form and detail and reasonably acceptable to the Agent, and accompanied by a certificate of the chief financial officer of the Parent to the effect that such quarterly financial statements fairly present in all material respects the financial condition of the Parent and its consolidated Subsidiaries and have been prepared in accordance with GAAP, subject to changes resulting from normal year-end audit adjustments.

(c) As soon as available, but in any event not later than thirty (30) days after the end of each of month, consolidated unaudited income statements for the Parent and its consolidated Subsidiaries in the form of the monthly management report attached hereto as Exhibit H, for such month and for the period from the beginning of the Fiscal Year to the end of such month, all in reasonable detail, fairly presenting

the financial position and results of operations of the Parent and its consolidated Subsidiaries as at the date thereof and for such periods, and, in each case, in comparable form, figures for the corresponding period in the Borrowers' budget, and prepared in accordance with GAAP applied consistently with the audited Financial Statements required to be delivered pursuant to Section 5.2(a) and subject to quarterly and year end adjustments.

(d) With each of the audited Financial Statements delivered pursuant to Section 5.2(a), a certificate of the independent certified public accountants that examined such statement to the effect that they have reviewed and are familiar with this Agreement and that, in examining such Financial Statements, they did not become aware of any fact or condition which then constituted a Default or Event of Default with respect to a financial covenant, except for those, if any, described in reasonable detail in such certificate.

(e) With each of the annual audited Financial Statements delivered pursuant to Section 5.2(a), and within forty-five (45) days after the end of each fiscal quarter, a certificate of the chief financial officer of the Parent setting forth in reasonable detail the

calculations required to establish that the Borrowers were in compliance with the covenants set forth in Sections 7.22 through 7.24 during the period covered in such Financial Statements and as at the end thereof. Within thirty (30) days after the end of each quarter, a certificate of the chief financial officer of the Parent stating that, except as explained in reasonable detail in such certificate, (A) all of the representations and warranties of the Borrowers contained in this Agreement and the other Loan Documents are correct and complete in all material respects as at the date of such certificate as if made at such time, except for those that speak as of a particular date, (B) the Borrowers are, at the date of such certificate, in compliance in all material respects with all of its respective covenants and agreements in this Agreement and the other Loan Documents, (C) no Default or Event of Default then exists or existed during the period covered by the Financial Statements for such month, (D) describing and analyzing in reasonable detail all material trends, changes, and developments in each and all Financial Statements; and (E) explaining the variances of the figures in the corresponding budgets and prior Fiscal Year financial statements; provided, however, notwithstanding the foregoing, it is understood and agreed that delivery of the Parent's applicable Form 10-Q within the time period specified above shall satisfy the requirements of clauses (D) and (E) above. If such certificate discloses that a representation or warranty is not correct or complete, or that a covenant has not been complied with, or that a Default or Event of Default existed or exists, such certificate shall set forth what action the Borrowers have taken or propose to take with respect thereto.

(f) No sooner than sixty (60) days and not less than thirty (30) days prior to the beginning of each Fiscal Year, annual forecasts (to include forecasted consolidated balance sheets, income statements and cash flow statements) for the Parent and its Subsidiaries as at the end of and for each quarter of such Fiscal Year.

(g) [Reserved].

(h) Promptly upon the filing thereof, copies of all reports, if any, to or other documents filed by any of the Borrowers with the Securities and Exchange Commission under the Exchange Act, and all reports, notices, or statements sent or received by any of the Borrowers to or from the holders of any equity interests of the Parent (other than routine non-material correspondence and reports sent by shareholders of the Parent to the Parent) or any such Subsidiary or of

any Debt of any of the Borrowers registered under the Securities Act of 1933 or to or from the trustee under any indenture under which the same is issued.

(i) As soon as available, but in any event not later than 30 days after any Borrower's receipt thereof, a copy of all management reports and management letters prepared for the Borrowers by any independent certified public accountants of the Borrowers.

(j) Promptly after their preparation, copies of any and all proxy statements, financial statements, and reports which the Parent makes available to its shareholders.

(k) If requested by the Agent, promptly after filing with the IRS, a copy of each tax return filed by the Parent or by any of the other Borrowers.

(l) As soon as available, but in any event by Friday following the end of each week, a Borrowing Base Certificate for such week and concurrently therewith, or more frequently if requested by the Agent, a schedule of each 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.

(m) On a monthly basis, by the 30th day of the following month or, during the existence of a Default or an Event of Default, more frequently if requested by the Agent, an aging of each of the Borrowers' Accounts, together with a reconciliation to the corresponding Borrowing Base and to each of the Borrowers' general ledger.

(n) On a monthly basis by the 30th day of the following month or, during the existence of a Default or an Event of Default, more frequently if requested by the Agent, an aging of each of the Borrowers' accounts payable.

(o) Upon request, a statement of the balance of each of the Intercompany Accounts.

(p) Such other reports as to the Collateral of the Borrowers as the Agent shall reasonably request from time to time.

(q) With the delivery of each of the foregoing items in clauses (l) through (p), a certificate of the Parent executed by a Responsible Officer certifying as to the accuracy and completeness thereof.

(r) Such additional information as the Agent and/or any Lender may from time to time reasonably request regarding the financial and business affairs of any Borrower or any Subsidiary.

5.3 Notices to the Lenders.

Each Borrower shall notify the Agent and the Lenders in writing of the following matters at the following times:

(a) Immediately after becoming aware of any Default or Event of Default;

(b) Immediately after becoming aware of the assertion by the holder of any capital stock of any Borrower or the holder of any Debt of any Borrower in a face amount in excess of \$1,000,000 that a default exists with respect thereto or that such Borrower is not in compliance with the terms thereof, or the threat or commencement by such holder of any enforcement action because of such asserted default or

non-compliance;

(c) Immediately after becoming aware of any event or circumstance which could have a Material Adverse Effect;

(d) Immediately after becoming aware of any pending or threatened action, suit, or proceeding, by any Person, or any pending or threatened investigation by a Governmental Authority, which could reasonably be expected to have a Material Adverse Effect;

(e) Immediately after becoming aware of any pending or threatened strike, work stoppage, unfair labor practice claim, or other labor dispute affecting the Parent or any of the other Borrowers in a manner which could reasonably be expected to have a Material Adverse Effect;

(f) Immediately after becoming aware of any violation of any law, statute, regulation, or ordinance of a Governmental Authority affecting the Parent or any other Borrower which could reasonably be expected to have a Material Adverse Effect;

(g) Immediately after receipt of any notice of any violation by the Parent or any of its Subsidiaries of any Environmental Law which could reasonably be expected to have a Material Adverse Effect or that any Governmental Authority has asserted in writing that the Parent or any other Borrower is not in compliance with any Environmental Law or is investigating the Parent's or such other Borrower's compliance therewith;

(h) Immediately after receipt of any written notice that the Parent or any of its Subsidiaries is or may be liable to any Person as a result of the Release or threatened Release of any Contaminant or that the Parent or any other Borrower is subject to investigation by any Governmental Authority evaluating whether any remedial action is needed to respond to the Release or threatened Release of any Contaminant which, in either case, is reasonably likely to give rise to liability in excess of \$1,000,000;

(i) Immediately after receipt of any written notice of the imposition of any Environmental Lien against any property of the Parent or any of its Subsidiaries;

(j) Any change in any Borrower's name as it appears in the state of its incorporation or other organization, state of incorporation or organization, type of entity, organizational identification number, locations of Collateral, or form of organization, trade names under which such Borrower will sell Inventory or create Accounts, or to which instruments in payment of Accounts may be made payable, in each case at least thirty (30) days prior thereto;

(k) Within fifteen (15) Business Days after the Parent or any ERISA Affiliate knows or has reason to know, that a non-exempt prohibited transaction (as defined in Sections 406 of ERISA and 4975 of the Code) or violation of the fiduciary responsibility rules with respect to any Plan has occurred or will occur, and, when known, any action taken or threatened by the IRS, the DOL or the PBGC with respect thereto;

(l) Upon request, or, in the event that such document reflects a significant change with respect to the matters covered thereby, within three (3) Business Days after the filing thereof with, or the issuance thereof by, the PBGC, the DOL or the IRS, as applicable, copies of the following: (i) each annual report (form 5500 series)

filed with the PBGC, the DOL or the IRS with respect to each Plan, (ii) a copy of each other filing or notice filed with the PBGC, the DOL or the IRS, with respect to each Plan by either the Parent or any ERISA Affiliate, and (iii) any determination letter from the IRS regarding the qualification of a Plan under Section 401(a) of the Code;

(m) Within fifteen (15) Business Days after any changes in the benefits of any existing Plan which increase any Borrower's annual costs with respect thereto by an amount in excess of \$2,500,000, or the establishment of any new Plan or the commencement of contributions to any Plan to which the Parent or any ERISA Affiliate was not previously contributing;

(n) Promptly after becoming aware of any commercial tort claim (as defined in the UCC) acquired by it;

(o) Promptly after becoming aware of any event or fact which could give rise to a material claim by such Borrower for indemnification under any of the Assigned Contracts;

(p) Immediately if such Borrower knows or has reason to know that any application or registration relating to any material patent, trademark or copyright (now or hereafter existing) may become abandoned or dedicated, or of any adverse determination or development (including the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, the United States Copyright Office or any court) regarding such Borrower's ownership of any material patent, trademark or copyright, its right to register the same, or to keep and maintain the same;

(q) Promptly after becoming aware that any of the material patent, trademark or copyright Collateral is infringed upon, or misappropriated or diluted by a third party.

Each notice given under this Section shall describe the subject matter thereof in reasonable detail, and shall set forth the action that the Parent, any other Borrower, or any ERISA Affiliate, as applicable, has taken or proposes to take with respect thereto.

ARTICLE 6 GENERAL WARRANTIES AND REPRESENTATIONS

Each Borrower warrants and represents to the Agent and the Lenders as follows:

6.1 Authorization, Validity, and Enforceability of this Agreement and the Loan Documents.

The Borrowers have the power and authority to execute, deliver and perform this Agreement and the other Loan Documents to which it is a party, to incur the Obligations, and to grant to the Agent Liens upon and security interests in the Collateral. The Borrowers have taken all necessary action (including obtaining approval of its stockholders if necessary) to authorize its execution, delivery, and performance of this Agreement and the other Loan Documents to which it is a party. This Agreement and the other Loan Documents to which it is a party have been duly executed and delivered by each Borrower, and constitute the legal, valid and binding obligations of each Borrower, enforceable against it in accordance with their respective terms. The Borrowers' execution, delivery, and performance of this Agreement and the other Loan Documents to which it is a party do not and will not conflict with, or constitute a violation or breach of, or result in the imposition of any Lien upon the property of the Parent or any of its Subsidiaries, by reason of the terms of (a) any contract, mortgage, lease, agreement, indenture, or instrument

to which any Borrower is a party or which is binding upon it, (b) any Requirement of Law applicable to any Borrower or any of its Subsidiaries, or (c) the certificate or articles of incorporation or by-laws or the limited liability company or limited partnership agreement of any Borrower.

6.2 Validity and Priority of Security Interest.

The provisions of this Agreement and the other Loan Documents create legal and valid Liens on all the Collateral in favor of the Agent, for the ratable benefit of the Agent and the Lenders, and such Liens constitute perfected and continuing Liens on all the Collateral, having priority over all other Liens on the Collateral, except for those Liens identified in clauses (c), (d) and (e) of the definition of Permitted Liens securing all the Obligations, and enforceable against the Borrowers and all third parties.

6.3 [Reserved.]

6.4 Corporate Name; Prior Transactions.

Each Borrower has not, during the past five (5) years, been known by or used any other corporate or fictitious name, or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its property outside of the ordinary course of business, except as set forth on Schedule 6.4.

6.5 Organization and Qualification.

Schedule 6.5 is a correct and complete list of the name and relationship to the Parent of each and all of its Subsidiaries. The Borrowers are (a) duly incorporated or organized and validly existing in good standing under the laws of its state of incorporation or organization set forth on Schedule 6.5, and (b) qualified to do business and in good standing in each jurisdiction in which the failure to so qualify or be in good standing could reasonably be expected to have a material adverse effect on any such Borrowers' business, operations, prospects, property, or

condition (financial or otherwise) and (c) has all requisite power and authority to conduct its business and own its property.

6.6 Financial Statements and Projections.

(a) The Parent has delivered to the Agent and the Lenders the audited balance sheet and related statements of income, retained earnings, cash flows, and changes in stockholders equity for the Parent and its consolidated Subsidiaries as of June 24, 2001, and for the Fiscal Year then ended, accompanied by the report thereon of the Parent's independent certified public accountants, Ernst & Young LLP. The Parent has also delivered to the Agent and the Lenders the unaudited balance sheet and related statements of income and cash flows for the Parent and its consolidated Subsidiaries as of September 25, 2001. Such financial statements are attached hereto as Exhibit C. All such financial statements have been prepared in accordance with GAAP and present accurately and fairly in all material respects the financial position of the Parent and its consolidated Subsidiaries as at the dates thereof and their results of operations for the periods then ended.

(b) The Latest Projections when submitted to the Lenders as required herein represent the Borrowers' best estimate of the future financial performance of the Parent and its consolidated Subsidiaries for the periods set forth therein. The Latest Projections have been prepared on the basis of the assumptions set forth therein, which the Borrowers believe are fair and reasonable in light of current and reasonably foreseeable business conditions at the time submitted to the Lenders.

(c) The pro forma balance sheet of the Parent as at September 25, 2001, attached hereto as Exhibit C, presents fairly and accurately the Borrowers' financial condition as at such date after giving effect to the transactions contemplated hereby and assuming the Closing Date had been such date, and has been prepared in accordance with GAAP.

6.7 Capitalization.

The Parent's authorized capital stock consists of 500,000,000 shares of common stock, par value \$0.10 per share, of which 53,825,533 shares are validly issued and outstanding, fully paid and non-assessable and are owned beneficially and of record on October 28, 2001. Capitalization for each Subsidiary is set forth on Schedule 6.7, attached hereto.

6.8 Solvency.

Based upon the financial statements for the fiscal year ended June 24, 2001 and the adjustments made in response thereto, each of the Borrowers is Solvent prior to and after giving effect to the Borrowings to be made on the Closing Date and the issuance of the Letters of Credit to be issued on the Closing Date. The Borrowers, on a consolidated basis, are Solvent prior to and after giving effect to the Borrowings to be made on the Closing Date and the issuance of the Letters of Credit to be issued on the Closing Date and shall remain Solvent during the term of

this Agreement. Each Borrower is able and expects to be able to pay its debts (including contingent debts and other commitments) as they mature.

6.9 Debt.

After giving effect to the making of the Revolving Loans to be made on the Closing Date, the Borrowers have no Debt, except (a) the Obligations, and (b) Debt described on Schedule 6.9. None of the holders of Debt owed by any Subsidiary which is not a Borrower has recourse against any Borrower.

6.10 Distributions.

Since June 24, 2001, no Distribution has been declared, paid, or made upon or in respect of any capital stock or other securities of the Borrowers, other than Distributions to any Borrower.

6.11 Real Estate; Leases.

Schedule 6.11 sets forth, as of the Closing Date, a correct and complete list of all Real Estate owned by the Parent and all Real Estate owned by any other Borrower, all leases and subleases of real or personal property held by any Borrower as lessee or sublessee (other than leases of personal property as to which any Borrower is lessee or sublessee for which the value of such personal property in the aggregate is less than \$2,000,000), and all leases and subleases of real or personal property held by any Borrower as lessor, or sublessor. Each of such leases and subleases is valid and enforceable in accordance with its terms and is in full force and effect, and no default by any party to any such lease or sublease exists. The Borrowers have good and marketable title in fee simple to the Real Estate identified on Schedule 6.11 as owned by the Borrowers, or valid leasehold interests in all Real Estate designated therein as "leased" by the Borrowers and the Borrowers have good, indefeasible, and merchantable title to all of its other property reflected on the June 24, 2001 Financial Statements delivered to the Agent and the Lenders, except as disposed of in the ordinary course of business since the date thereof, free of all Liens except Permitted Liens.

6.12 Proprietary Rights.

Schedule 6.12 sets forth a correct and complete list of all of the

Borrowers' Proprietary Rights. None of the Proprietary Rights is subject to any licensing agreement or similar arrangement except as set forth on Schedule 6.12. To the best of each Borrower's knowledge, none of the Proprietary Rights infringes on or conflicts with any other Person's property, and no other Person's property infringes on or conflicts with the Proprietary Rights. The Proprietary Rights described on Schedule 6.12 constitute all of the property of such type necessary to the current and anticipated future conduct of the businesses of the Borrowers.

6.13 Trade Names.

All trade names or styles under which the Parent or any other Borrower will sell Inventory or create Accounts, or to which instruments in payment of Accounts may be made payable, are listed on Schedule 6.13.

6.14 Litigation.

Except as set forth on Schedule 6.14, there is no pending, or to the best of each Borrower's knowledge threatened, action, suit, proceeding, or counterclaim by any Person, or to the best of each Borrower's knowledge, investigation by any Governmental Authority, or any basis for any of the foregoing, which could reasonably be expected to have a Material Adverse Effect.

6.15 Labor Disputes.

Except as set forth on Schedule 6.15, as of the Closing Date (a) there is no collective bargaining agreement or other labor contract covering employees of the Borrowers, (b) no such collective bargaining agreement or other labor contract is scheduled to expire during the term of this Agreement, (c) no union or other labor organization is seeking to organize, or to be recognized as, a collective bargaining unit of employees of the Borrowers or for any similar purpose, and (d) there is no pending or (to the best of each Borrower's knowledge) threatened, strike, work stoppage, material unfair labor practice claim, or other material labor dispute against or affecting the Parent or any of the other Borrowers or their employees.

6.16 Environmental Laws.

Except as otherwise disclosed on Schedule 6.16 or except as otherwise would not result in or would not be expected to result in a Material Adverse Effect:

(a) The Parent and its Domestic Subsidiaries have complied in all material respects with all Environmental Laws and neither the Parent nor any Domestic Subsidiary nor any of its presently owned real property or presently conducted operations, nor its previously owned real property or prior operations, is subject to any enforcement order from or liability agreement with any Governmental Authority or private Person respecting (i) compliance with any Environmental Law or (ii) any potential liabilities and costs or remedial action arising from the Release or threatened Release of a Contaminant.

(b) The Parent and its Domestic Subsidiaries have obtained all permits necessary for their current operations under Environmental Laws, and all such permits are in good standing and the Parent and its Domestic Subsidiaries are in compliance with all material terms and conditions of such permits.

(c) Neither the Parent nor any of its Domestic Subsidiaries, nor, to the best of the Borrowers' knowledge, any of its predecessors in interest, has in violation of applicable law stored, treated or disposed of any hazardous waste.

(d) Neither the Parent nor any of its Domestic Subsidiaries has received any summons, complaint, order or similar written notice indicating that it is not currently in compliance with, or that any Governmental Authority is investigating its compliance with, any Environmental Laws or that it is or may be liable to any other Person as a result of a Release or threatened Release of a Contaminant.

(e) To the best of each Borrower's knowledge, none of the present or past operations of the Parent and its Domestic Subsidiaries is the subject of any investigation by any Governmental Authority evaluating whether any remedial action is needed to respond to a Release or threatened Release of a Contaminant.

(f) There is not now, nor to the best of each Borrower's knowledge has there ever been on or in the Real Estate:

(i) any underground storage tanks or surface impoundments,

(ii) any asbestos-containing material, or

(iii) any polychlorinated biphenyls (PCBs) used in hydraulic oils, electrical transformers or other equipment,

the presence of which has had or could reasonably be expected to have a Material Adverse Effect.

(g) Neither the Parent nor any of its Domestic Subsidiaries has filed any notice under any requirement of Environmental Law reporting a spill or accidental and unpermitted Release or discharge of a Contaminant into the environment.

(h) Neither the Parent nor any of its Domestic Subsidiaries has entered into any negotiations or settlement agreements with any Person (including the prior owner of its property) imposing material obligations or liabilities on the Parent or any of its Domestic Subsidiaries with respect to any remedial action in response to the Release of a Contaminant or environmentally related claim.

(i) None of the products manufactured, distributed or sold by the Parent or any of its Domestic Subsidiaries contain asbestos containing material.

(j) No Environmental Lien has attached to the Real Estate.

6.17 No Violation of Law.

None of the Borrowers is in violation of any law, statute, regulation, ordinance, judgment, order, or decree applicable to it which violation could reasonably be expected to have a Material Adverse Effect.

6.18 No Default.

None of the Borrowers is in default with respect to any note, indenture, loan agreement, mortgage, lease, deed, or other agreement to which such Borrower is a party or by which it is bound, which default could reasonably be expected to have a Material Adverse Effect.

6.19 ERISA Compliance.

Except as specifically disclosed on Schedule 6.19:

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state

law. Each Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS and to the best knowledge of the Borrowers, nothing has occurred which would cause the loss of such qualification.

(b) Neither the Parent nor any ERISA Affiliate sponsors, maintains or is obligated to make contributions to any Pension Plan or Multi-employer Plan nor has the parent or any ERISA Affiliate sponsored, maintained or contributed to any Pension Plan or Multi-employer Plan at any time during the six (6) year period ending on the date of this Agreement.

(c) There are no pending or, to the best knowledge of the Parent or its Domestic Subsidiaries, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect. There has been no non-exempt prohibited transaction (as defined in Sections 406 of ERISA and 4975 of the Code) or violation of the fiduciary responsibility rules with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect.

6.20 Taxes.

The Borrowers have filed all federal and other tax returns and reports required to be filed, and have paid all federal and other taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable unless such unpaid taxes and assessments would constitute a Permitted Lien.

6.21 Regulated Entities.

No Borrower and no Person controlling any Borrower, is an "Investment Company" within the meaning of the Investment Company Act of 1940. No Borrower is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, any state public utilities code or law, or any other federal or state statute or regulation limiting its ability to incur indebtedness.

6.22 Use of Proceeds; Margin Regulations.

The proceeds of the Loans are to be used solely to refinance existing Debt, to issue standby and commercial letters of credit and for working capital purposes. Neither the Parent nor any other Borrower is engaged in the business of purchasing or selling Margin Stock or extending credit for the purpose of purchasing or carrying Margin Stock.

6.23 Copyrights, Patents, Trademarks and Licenses, etc.

Except as set forth on Schedule 6.14, the Borrowers own or are licensed or otherwise have the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, licenses, rights of way, authorizations and other rights that are reasonably necessary for the operation of their businesses, without conflict with the rights of any other Person. To the best knowledge of each Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Parent or any other Borrower infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or threatened, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or, to the knowledge of each Borrower, proposed, which, in either case, could reasonably be expected to have a Material Adverse Effect.

6.24 No Material Adverse Change.

No Material Adverse Effect has occurred since the latest date of the annual audited Financial Statements previously delivered to the Lenders.

6.25 Full Disclosure.

None of the representations or warranties made by the Parent or any other Borrower in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements contained in any exhibit, report, statement or certificate furnished by or on behalf of the Parent or any other Borrower in connection with the Loan Documents (including the offering and disclosure materials delivered by or on behalf of the Borrowers to the Lenders prior to the Closing Date), contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

6.26 Material Agreements.

Schedule 6.26 hereto sets forth as of the Closing Date all material agreements and contracts to which the Parent or any of the other Borrowers is a party or is bound as of the date hereof.

6.27 Bank Accounts.

Schedule 6.27 contains as of the Closing Date a complete and accurate list of all bank accounts maintained by each Borrower with any bank or other financial institution.

6.28 Governmental Authorization.

No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrowers of this Agreement or any other Loan Document.

6.29 Immaterial Subsidiaries.

No Immaterial Subsidiary has Collateral in excess of \$100,000.

ARTICLE 7 AFFIRMATIVE AND NEGATIVE COVENANTS

Each Borrower covenants to the Agent and each Lender that so long as any of the Obligations remain outstanding or this Agreement is in effect:

7.1 Taxes and Other Obligations.

Each Borrower shall, and shall cause each of its Domestic Subsidiaries to, (a) file when due all tax returns and other reports which it is required to file; (b) pay, or provide for the payment, when due, of all taxes, fees, assessments and other governmental charges against it or upon its property, income and franchises, make all required withholding and other tax deposits, and establish adequate reserves for the payment of all such items, and provide to the Agent and the Lenders, upon request, satisfactory evidence of its timely compliance with the foregoing; and (c) pay when due all Debt owed by it and all claims of materialmen, mechanics, carriers, warehousemen, landlords, processors and other like Persons, and all other indebtedness owed by it and perform and discharge in a timely manner all other obligations undertaken by it; provided, however, so long as the Parent has notified the Agent in writing, neither the Parent nor any of its Subsidiaries need pay any tax, fee, assessment, or governmental charge (i) it is contesting in good faith by appropriate

proceedings diligently pursued, (ii) as to which the Parent or any Subsidiary, as the case may be, has established proper reserves as required under GAAP, and (iii) the nonpayment of which does not result in the imposition of a Lien (other than a Permitted Lien).

7.2 Legal Existence and Good Standing.

Each Borrower shall, and shall cause each of its Domestic Subsidiaries to, maintain its legal existence and its qualification and good standing in all jurisdictions in which the failure to

maintain such existence and qualification or good standing could reasonably be expected to have a Material Adverse Effect.

7.3 Compliance with Law and Agreements; Maintenance of Licenses.

Each Borrower shall comply, and shall cause each Domestic Subsidiary to comply, in all material respects with all Requirements of Law of any Governmental Authority having jurisdiction over it or its business (including the Federal Fair Labor Standards Act and all Environmental Laws). Each Borrower shall obtain and maintain all licenses, permits, franchises, and governmental authorizations necessary to own its property and to conduct its business as conducted on the Closing Date. No Borrower shall modify, amend or alter its certificate or articles of incorporation, or its limited liability company operating agreement or limited partnership agreement, as applicable, other than in a manner which does not adversely affect the rights of the Lenders or the Agent.

7.4 Maintenance of Property; Inspection of Property.

(a) Each Borrower shall, and shall cause each of its Domestic Subsidiaries to, maintain all of its property necessary and useful in the conduct of its business, in good operating condition and repair, ordinary wear and tear excepted.

(b) Each Borrower shall permit representatives and independent contractors of the Agent (at the expense of such Borrower not to exceed three (3) times per year during the initial year of this Agreement and two (2) times per year for each year thereafter, unless an Event of Default has occurred and is continuing) to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom and to discuss its affairs, finances and accounts with its officers and independent public accountants, at such reasonable times during normal business hours and as soon as may be reasonably desired, upon reasonable advance notice to such Borrower; provided, however, when an Event of Default exists, the Agent or any Lender may do any of the foregoing at the expense of the Borrowers at any time during normal business hours and without advance notice.

7.5 Insurance.

(a) The Parent shall maintain, and shall cause each of the Borrowers to maintain, with financially sound and reputable insurers having a rating of at least A+ or better by Best Rating Guide, insurance against loss or damage by fire with extended coverage; theft and loss in transit; public liability and third party property damage; fraud or other criminal liability; business interruption; public liability and third party property damage; and such other hazards or of such other types as is customary for Persons engaged in the same or similar business and, with respect to any insurance covering any Collateral, in amounts and under policies reasonably acceptable to the Agent and without exclusions for acts of terrorism or other exclusions not acceptable to the Agent. The Agent acknowledges that, as of the Closing Date, the Borrowers' existing insurance policies and the

amounts of coverage provided for therein are acceptable.

(b) The Borrowers shall cause the Agent, for the ratable benefit of the Agent and the Lenders, to be named as an additional insured and with respect to Inventory, as secured party and sole loss payee, in each case in a manner acceptable to the Agent. Each policy of insurance shall contain a clause or endorsement requiring the insurer to give not less than thirty (30) days' prior written notice to the Agent in the event of cancellation of the policy for any reason whatsoever and a clause or endorsement stating that the interest of the Agent shall not be impaired or invalidated by any act or neglect of the Parent or any Borrower or the owner of any Real Estate for purposes more hazardous than are permitted by such policy and shall contain such other terms and conditions as Agent shall require. All premiums for such insurance shall be paid by the Borrowers when due, and certificates of insurance and, if requested by the Agent or any Lender, photocopies of the policies, shall be delivered to the Agent, in each case in sufficient quantity for distribution by the Agent to each of the Lenders. If the Borrowers fail to procure such insurance or to pay the premiums therefor when due, the Agent may, and at the direction of the Required Lenders shall, do so from the proceeds of Revolving Loans.

7.6 Insurance and Condemnation Proceeds.

The Borrowers shall promptly notify the Agent and the Lenders of any loss, damage, or destruction to the Collateral, whether or not covered by insurance in excess of \$1,000,000. The Agent is hereby authorized to collect all insurance and condemnation proceeds in respect of Collateral directly and to apply or remit them as follows: With respect to insurance and condemnation proceeds relating to Collateral, after deducting from such proceeds the reasonable expenses, if any, incurred by the Agent in the collection or handling thereof, the Agent shall apply such proceeds, ratably, to the reduction of the Obligations in the order provided for in Section 3.8.

7.7 Environmental Laws.

(a) Each Borrower shall, and shall cause each of its Domestic Subsidiaries to, conduct its business in compliance with all Environmental Laws applicable to it, including those relating to the generation, handling, use, storage, and disposal of any Contaminant. Each Borrower shall, and shall cause each of its Domestic Subsidiaries to, take prompt and appropriate action to respond to any non-compliance with Environmental Laws and shall regularly report to the Agent on such response.

(b) The Agent or any Lender may request copies of technical reports prepared by the Borrowers and their communications with any Governmental Authority to determine whether the Borrowers are proceeding reasonably to correct, cure or contest in good faith any alleged non-compliance or environmental liability. The Borrowers shall, at the Agent's or the Required Lenders' request and at the Borrowers' expense, (i) retain an independent environmental engineer acceptable to the Agent to evaluate the site, including tests if appropriate, where the non-compliance or alleged non-compliance with Environmental Laws has occurred and prepare and deliver to the Agent, in sufficient quantity for distribution by the Agent to the Lenders, a report setting forth the results of

such evaluation, a proposed plan for responding to any environmental problems described therein, and an estimate of the costs thereof, and (ii) provide to the Agent and the Lenders a supplemental report of such engineer whenever the scope of the environmental problems, or the

response thereto or the estimated costs thereof, shall increase in any material respect.

7.8 Compliance with ERISA; Pension and Multi-employer Plans.

Each Borrower shall, and shall cause each of its ERISA Affiliates to: (a) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law; (b) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification; and (c) not engage in a non-exempt prohibited transaction (as defined in Sections 406 of ERISA and 4975 of the Code) or violation of the fiduciary responsibility rules with respect to any Plan which could not reasonably be expected to result in a Material Adverse Effect. Neither the Parent nor any ERISA Affiliate shall adopt, sponsor, maintain or become obligated to make contributions to any Pension Plan or Multi-employer Plan.

7.9 Mergers, Consolidations or Sales.

No Borrower shall enter into any transaction of merger, reorganization, or consolidation, or transfer, sell, assign, lease, or otherwise dispose of all or any part of its property, or wind up, liquidate or dissolve, or agree to do any of the foregoing, except (a) for sales of Inventory in the ordinary course of its business, (b) for sales or other dispositions of Equipment and other assets (other than Collateral included in the Borrowing Base and the proceeds thereof) in the ordinary course of business that are obsolete or no longer used or required by such Borrower in its business, (c) for mergers or consolidations of one Borrower with or into another Borrower, (d) for mergers or consolidations of any Subsidiary with or into another Subsidiary; provided that if one of such Subsidiaries is a Borrower, then such Borrower shall be the surviving entity, (e) for the sale of the Corporate Headquarters, (f) the sale of Cimtec Automation, Inc. and (g) for sales of Accounts to Factors pursuant to the Factoring Agreements.

7.10 Distributions; Capital Change; Restricted Investments.

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) the aggregate amount of all such Distributions in any calendar year, commencing with the year 2002, shall not exceed \$10,000,000, (ii) the aggregate amount of all such Distributions during the term of this Agreement shall not exceed \$25,000,000, (iii) except as provided in the proviso immediately below, Availability shall be at least \$25,000,000 after giving effect thereto, (iv) the Fixed Charge Coverage Ratio shall not be less than 1.0 to 1.0, after giving effect to the making of such Distributions on a pro forma basis and (v) no Default or Event of Default shall exist prior to or immediately after the making of any such Distributions; provided, however, that if Availability would be less than \$25,000,000 but greater than or equal to \$10,000,000 after giving effect to the making of any such Distributions, notwithstanding the foregoing, such Distributions by the Parent may be made in accordance with and subject to the other

requirements of this clause (y) if after giving effect to the making thereof, the Fixed Charge Coverage Ratio would not be less than 1.10 to 1.0 and the Leverage Ratio would not be greater than 5.0 to 1.0, determined on a pro forma basis), (b) make any change in its capital structure which could have a Material Adverse Effect or (c) make any Restricted Investments. For purposes of clause (y) of this Section 7.10, "pro forma basis" shall mean that compliance with the financial covenants referred to in this Section 7.10 shall be determined on the basis of the financial statements and related numbers for the four consecutive fiscal quarters ending with the fiscal quarter immediately preceding the date on which any such Distributions are to be made and giving effect to the making of such Distributions as if they were made on the first day of the four consecutive fiscal quarters ending with such fiscal quarter.

7.11 Transactions Affecting Collateral or Obligations.

No Borrower shall enter into any transaction which would be reasonably expected to have a Material Adverse Effect.

7.12 Guaranties.

Without the prior consent of the Majority Lenders, no Borrower shall make, issue, or become liable on any Guaranty, except Guaranties of the Obligations in favor of the Agent.

7.13 Debt.

No Borrower shall incur or maintain any Debt, other than: (a) the Obligations; (b) Debt described on Schedule 6.9; (c) Capital Leases of Equipment and purchase money secured Debt incurred to purchase Equipment provided that (i) Liens securing the same attach only to the Equipment acquired by the incurrence of such Debt, and (ii) the aggregate amount of such Debt (including Capital Leases) outstanding does not exceed \$45,000,000 at any time; (d) Debt evidencing a refunding, renewal or extension of the Debt described on Schedule 6.9; provided that (i) the principal amount thereof is not increased, (ii) the Liens, if any, securing such refunded, renewed or extended Debt do not attach to any assets in addition to those assets, if any, securing the Debt to be refunded, renewed or extended, (iii) no Person that is not an obligor or guarantor of such Debt as of the Closing Date shall become an obligor or guarantor thereof, and (iv) the terms of such refunding, renewal or extension are no less favorable to the Borrowers, the Agent or the Lenders than the original Debt; (e) Derivative Obligations of the Borrowers in respect of Hedging Agreements entered into in order to manage existing or anticipated interest rate or exchange rate risks and not for speculative purposes; (f) Debt of the Borrowers arising under the Indenture in an aggregate principal amount not to exceed \$250,000,000 at any one time during the term of this Agreement and renewals and refinancings thereof on terms and conditions no less favorable to the Borrowers than the terms and conditions contained in the Indenture and in a principal amount not in excess of the principal balance outstanding under the Indenture at the time of such refinancing, (g) mortgage Debt not to exceed \$8,500,000 incurred to finance the purchase of the Corporate Headquarters and (h) (i) unsecured Debt in connection with Permitted Acquisitions on terms and conditions satisfactory to the Agent and the Majority Lenders and (ii) secured Debt in connection with Permitted Acquisitions that is fully subordinated to the Obligations hereunder, is secured only by property newly-acquired in connection with the related Permitted Acquisition and

is otherwise on terms and conditions satisfactory to the Agent and the Majority Lenders, provided, however, that in either case no such Debt shall be permitted unless (A) except as provided in the proviso immediately below, Availability shall be at least \$25,000,000 after giving effect to the incurrence of such Debt, (B) the Fixed Charge Coverage Ratio shall not be less than 1.0 to 1.0, after giving effect to the incurrence of such Debt on a pro forma basis and (C) no Default or Event of Default shall exist prior to or immediately after the incurrence of any such Debt; provided, further, that if Availability would be less than \$25,000,000 but greater than or equal to \$10,000,000 after giving effect to the incurrence of such Debt, notwithstanding the foregoing, such Debt may be incurred in accordance with and subject to the other requirements of this clause (h) (i) or (ii) if after giving effect to the incurrence thereof, the Fixed Charge Coverage Ratio would not be less than 1.10 to 1.0 and the Leverage Ratio would not be greater than 5.0 to 1.0, determined on a pro forma basis. For purposes of clause (h) of this Section 7.13, "pro forma basis" shall mean that compliance with the financial covenants referred to in this Section 7.13 shall be determined on the basis of the financial statements and related numbers for the four consecutive fiscal quarters ending with the fiscal quarter immediately preceding the date on which any such Debt is to be incurred and giving effect to the incurrence of such Debt and the consummation of the related Permitted Acquisition as if they occurred on the first day of the four consecutive fiscal quarters ending with such fiscal quarter.

7.14 Prepayment.

No Borrower shall voluntarily prepay any Debt, except (i) the Obligations in accordance with the terms of this Agreement and (ii) provided no Default or Event of Default exists prior to or immediately after the making of such prepayments, Debt payments not to exceed \$2,000,000 in the aggregate in any fiscal year.

7.15 Transactions with Affiliates.

Except as set forth below, no Borrower shall, sell, transfer, distribute, or pay any money or property, including, but not limited to, any fees or expenses of any nature (including, but not limited to, any fees or expenses for management services), to any Affiliate, or lend or advance money or property to any Affiliate, or invest in (by capital contribution or otherwise) or purchase or repurchase any stock or indebtedness, or any property, of any Affiliate, or become liable on any Guaranty of the indebtedness, dividends, or other obligations of any Affiliate. Notwithstanding the foregoing, while no Event of Default has occurred and is continuing, any Borrower may engage in transactions with Affiliates in the ordinary course of business consistent with past practices, in amounts and upon terms no less favorable to such than would be obtained in a comparable arm's-length transaction with a third party who is not an Affiliate. Upon the occurrence of an Event of Default and during the continuation thereof, no Borrower shall engage in such affiliate transactions unless such Borrower has previously notified the Agent and obtained the Agent's prior consent to such transaction, such consent not to be unreasonably withheld.

7.16 Investment Banking and Finder's Fees.

No Borrower shall pay or agree to pay, or reimburse any other party with respect to, any investment banking or similar or related fee, underwriter's fee, finder's fee, or broker's fee to any Person in connection with this Agreement. The Borrowers shall defend and indemnify the Agent and the Lenders against and hold them harmless from all claims of any Person that the Borrowers are obligated to pay for any such fees, and all costs and expenses (including attorneys' fees) incurred by the Agent and/or any Lender in connection therewith.

7.17 Business Conducted.

Without the prior consent of the Majority Lenders, no Borrower shall engage directly or indirectly, in any line of business other than the businesses in which the Borrowers are engaged on the Closing Date and any other similar or related businesses.

7.18 Liens.

No Borrower shall create, incur, assume, or permit to exist any Lien on any property now owned or hereafter acquired by any of them, except Permitted Liens, and Liens, if any, in effect as of the Closing Date described in Schedule 6.9 securing Debt described in Schedule 6.9 and Liens securing Capital Leases and purchase money Debt permitted in Section 7.13.

7.19 Sale and Leaseback Transactions.

No Borrower shall, directly or indirectly, enter into any arrangement with any Person providing for such Borrower to lease or rent property that the Parent or any of its Subsidiaries has sold or will sell or otherwise transfer to such Person unless no Default or Event of Default has occurred and is continuing or would occur as a result of such transaction.

7.20 Subsidiaries.

Each Borrower shall cause any Domestic Subsidiary acquired or formed

after the Closing Date (other than an Immaterial Subsidiary) to become a Borrower hereunder and to pledge its assets constituting Collateral in favor of the Agent as provided in the Security Agreement by becoming a party to a Joinder Agreement. If any Immaterial Subsidiary ceases to be an Immaterial Subsidiary, then the Borrowers shall cause such Subsidiary to become a Borrower hereunder and to pledge its assets in favor of the Agent as provided in the Security Agreement by becoming a party to a Joinder Agreement.

7.21 Fiscal Year.

No Borrower shall change its Fiscal Year.

7.22 Capital Expenditures.

The Borrowers shall not make or incur any Capital Expenditure if, after giving effect thereto, the aggregate amount of all Capital Expenditures by the Borrowers on a consolidated basis would exceed during any Fiscal Year the sum of (i) \$30,000,000 plus (ii) seventy-five percent (75%) of the unused amount available for Capital Expenditures under this Section 7.22 for the immediately preceding Fiscal Year (excluding any carry forward available from prior Fiscal Years and excluding the purchase price paid by the Borrowers for the Corporate Headquarters up to \$8,500,000 unless such property is not resold by the Borrowers to a third party within six months following the initial purchase thereof by the Borrowers).

7.23 Fixed Charge Coverage Ratio.

If Availability is less than \$25,000,000 at any time during any fiscal quarter, the Borrowers will maintain a Fixed Charge Coverage Ratio of not less than 1.1 to 1.0 as of the last day of each such fiscal quarter.

7.24 Leverage Ratio.

If Availability is less than \$25,000,000 at any time during any fiscal quarter, the Borrowers will maintain a Leverage Ratio of not greater than 5.0 to 1.0 as of the last day of each such fiscal quarter.

7.25 Use of Proceeds.

No Borrower shall, or shall suffer or permit any Subsidiary to, use any portion of the Loan proceeds, directly or indirectly, (i) to purchase or carry Margin Stock, (ii) to repay or otherwise refinance indebtedness of a Borrower or others incurred to purchase or carry Margin Stock, (iii) to extend credit for the purpose of purchasing or carrying any Margin Stock, or (iv) to acquire any security in any transaction that is subject to Section 13 or 14 of the Exchange Act.

7.26 Interest Rate Protection.

The Borrowers shall, within 120 days of the Closing Date and continuing thereafter until all Obligations are paid in full and the Commitments have been terminated, maintain Hedge Agreements on terms acceptable to the Agent, with financial institution(s) reasonably acceptable to the Agent, the effect of which shall be to limit the interest rate payable by the Borrowers with respect to at least thirty percent (30%) of the initial Borrowings under this Agreement.

7.27 Bank Accounts.

Without the prior consent of the Agent, neither the Parent nor any other Borrower shall open, maintain or otherwise have any checking, savings or other accounts at any bank or other financial institution, or any other account where money is or may be deposited or maintained with any Person, other than the accounts set forth on Schedule 6.27 hereto, on and after the Closing Date, except for such other accounts which are subject to a tri-party lockbox or other

blocked account agreement satisfactory to the Agent or which do not have a balance in excess of \$100,000 in the aggregate at any time. All such deposit accounts, other than payroll accounts, shall be under the sole dominion and control of the Agent in accordance with the provisions of the Security Agreement.

7.28 Factoring Credit Balances and Inventory.

As of the date of each Borrowing Base Certificate delivered to Agent, each Factoring Credit Balance listed thereon as an Eligible Factoring Credit Balance shall be an Eligible Factoring Credit Balance and all Inventory listed thereon as Eligible Inventory shall be Eligible Inventory. No Borrower has made, or will make, any agreement with any Factor for any extension of time for the payment of any Factoring Credit Balance, any compromise or settlement for less than the full amount thereof, any release of any Factor from liability therefor, or any deduction therefrom except a discount or allowance for prompt or early payment allowed by such Borrower in the ordinary course of its business consistent with historical practice and as previously disclosed to Agent in writing. Schedule 7.28 sets forth each contract of each Borrower with any Factor which gives such Factor the right (under such contract, under common law or otherwise) to offset any Accounts for Borrowers' failure to perform under such contract and each Borrower has obtained an offset waiver for each such contract in form and substance satisfactory to Agent. With respect to the Factoring Credit Balances pledged as collateral pursuant to any Loan Document (a) the amounts shown on all invoices, statements and reports which may be delivered to the Agent with respect thereto are actually and absolutely owing to the relevant party as indicated thereon and are not in any way contingent; (b) no payments have been or shall be made thereon except payments immediately delivered to the applicable accounts described in Schedule 6.27 or the Agent as required hereunder or under the Security Agreement; and (c) to each Borrower's knowledge all Factors have the capacity to contract. A Borrower shall notify Agent promptly of any event or circumstance which to such Borrower's knowledge would cause Agent to consider any then existing Factoring Credit Balance or Inventory as no longer constituting Eligible Factoring Credit Balances or Eligible Inventory, as the case may be.

7.29 Modification of Agreements.

(a) The Parent shall not, nor shall it permit any other Borrower to, amend, restate, supplement, modify or terminate the Indenture or any agreement, document or instrument relating thereto without the prior written consent of the Agent and the Majority Lenders. The Parent shall not, nor shall it permit any other Borrower to, terminate any Factoring Agreement without the prior written consent of the Agent and the Majority Lenders. The Parent shall not, nor shall it permit any other Borrower to, amend or modify any Factoring Agreement or any agreement, document or instrument relating thereto in any material respect that would adversely affect the interests of the Lenders hereunder without the prior written consent of the Agent and the Majority Lenders. For purposes of this Agreement, but without limiting the foregoing, a change in the rate of interest or commissions, fees or collection days charged by a Factor under a Factoring Agreement shall not be deemed a material term of such Factoring Agreement.

(b) No Borrower will amend, supplement or otherwise modify the terms of its organizational documents in any manner adverse to the Lenders without the prior written consent of the Agent and the Majority Lenders.

7.30 Restrictions on Subsidiary Distributions.

The Parent will not, and will not permit any of its Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any such Subsidiary to (a) pay dividends or make any other distributions on its capital stock or any

other interest or participation in its profits owned by the Parent or any Subsidiary, or pay any Debt owed to the Parent or any Subsidiary, (b) make loans or advances to the Parent or any of its Subsidiaries, or (c) transfer any of its properties or assets to a Borrower, except for such encumbrances or restrictions existing under or by reason of applicable laws or the Agreement.

7.31 Factors.

The Borrowers shall not change any of their Factors without the prior written consent of the Agent, such consent not to be unreasonably withheld.

7.32 Further Assurances.

The Borrowers shall execute and deliver, or cause to be executed and delivered, to the Agent and/or the Lenders such documents and agreements, and shall take or cause to be taken such actions, as the Agent or any Lender may, from time to time, request to carry out the terms and conditions of this Agreement and the other Loan Documents. Upon the purchase of the Corporate Headquarters by one or more of the Borrowers, the Borrowers shall simultaneously therewith grant to the Agent for the benefit of the Lenders a mortgage on the Corporate Headquarters to secure the Obligations, in form and substance satisfactory to the Agent, accompanied by adequate title insurance, flood certification, survey and such other typical real estate financing requirements as the Agent may request.

ARTICLE 8 CONDITIONS OF LENDING

8.1 Conditions Precedent to Making of Loans on the Closing Date.

The obligation of the Lenders to make the initial Revolving Loans on the Closing Date, and the obligation of the Agent to cause the Letter of Credit Issuer to issue any Letter of Credit on the Closing Date, are subject to the following conditions precedent having been satisfied in a manner satisfactory to the Agent and each Lender:

(a) This Agreement and the other Loan Documents (other than the Borrowers' Ex-Im Agreement and other documents relating specifically to Ex-Im Bank Revolving Loans) shall have been executed by each party thereto and the Borrowers shall have performed and complied with all covenants, agreements and conditions contained herein

and the other Loan Documents which are required to be performed or complied with by the Borrowers before or on such Closing Date.

(b) Upon making the Revolving Loans (including such Revolving Loans made to finance the Agent Fees or otherwise as reimbursement for fees, costs and expenses then payable under this Agreement) and with all its obligations current, the Borrowers shall have Availability of at least \$25,000,000.

(c) All representations and warranties made hereunder and in the other Loan Documents shall be true and correct as if made on such date.

(d) No Default or Event of Default shall have occurred and be continuing after giving effect to the Loans to be made and the Letters of Credit to be issued on the Closing Date.

(e) The Agent and the Lenders shall have received such opinions of counsel for the Borrowers as the Agent or any Lender shall request, each such opinion to be in a form, scope, and substance satisfactory to the Agent, the Lenders, and their respective counsel and shall include among other things, an opinion that this Agreement

does not cause a violation under the Indenture.

(f) The Agent shall have received:

(i) acknowledgment copies of proper financing statements, duly filed on or before the Closing Date under the UCC of all jurisdictions that the Agent may deem necessary or desirable in order to perfect the Agent's Liens; and

(ii) duly executed UCC-3 Termination Statements and such other instruments, in form and substance satisfactory to the Agent, as shall be necessary to terminate and satisfy all Liens on the Property of the Borrowers except Permitted Liens.

(g) The Borrowers shall have paid all fees and expenses of the Agent and the Attorney Costs incurred in connection with any of the Loan Documents and the transactions contemplated thereby to the extent invoiced.

(h) The Agent shall have received evidence, in form, scope, and substance, reasonably satisfactory to the Agent, of all insurance coverage as required by this Agreement with satisfactory insurance certificates naming the Agent as loss payee or additional insured, as appropriate.

(i) The Agent and the Lenders shall have had an opportunity, if they so choose, to examine the books of account and other records and files of the Borrowers and to make copies thereof, and to conduct a pre-closing audit which shall include, without limitation, verification of Inventory, Accounts, and the Borrowing Base, and the results

of such examination and audit shall have been satisfactory to the Agent and the Lenders in all respects.

(j) All proceedings taken in connection with the execution of this Agreement, all other Loan Documents and all documents and papers relating thereto shall be satisfactory in form, scope, and substance to the Agent and the Lenders.

(k) The completion by the Agent of its due diligence in connection with the Loan Documents, with the results thereof being acceptable to the Agent.

(l) The Agent shall have received evidence satisfactory to it that all of the Debt of the Borrowers under the Existing Credit Agreement and the Wachovia Asset Securitization has been paid in full (or will be paid in full with the proceeds of the initial Loans made hereunder), all documents executed or delivered in connection therewith have been terminated and all Liens granted in connection therewith have been released or are agreed to be released upon such repayment in full.

(m) The Agent shall have received (a) a statement of sources and uses of funds covering all payments reasonably expected to be made by the Borrowers in connection with the transactions contemplated by the Loan Documents to be consummated on the Closing Date, including an itemized estimate of all fees, expenses and other closing costs and (b) payment instructions with respect to each wire transfer to be made by the Agent on behalf of the Lenders or the Borrowers on the Closing Date setting forth the amount of such transfer, the purpose of such transfer, the name and number of the account to which such transfer is to be made, the name and ABA number of the bank or other financial institution where such account is located and the name and telephone number of an individual that can be contacted to confirm receipt of such transfer.

(n) Receipt by the Agent of an Account Designation Letter.

(o) Without limiting the generality of the items described above, the Borrowers and each Person guarantying or securing payment of the Obligations shall have delivered or caused to be delivered to the Agent (in form and substance reasonably satisfactory to the Agent), the financial statements, instruments, resolutions, documents, agreements, certificates, opinions and other items set forth on the "Closing Checklist" delivered by the Agent to the Borrowers prior to the Closing Date.

The acceptance by the Borrowers of any Loans made or Letters of Credit issued on the Closing Date shall be deemed to be a representation and warranty made by the Borrowers to the effect that all of the conditions precedent to the making of such Loans or the issuance of such Letters of Credit have been satisfied, with the same effect as delivery to the Agent and the Lenders of a certificate signed by a Responsible Officer of the Parent on behalf of the Borrowers, dated the Closing Date, to such effect.

Execution and delivery to the Agent by a Lender of a counterpart of this Agreement shall be deemed confirmation by such Lender that (i) all conditions precedent in this Section 8.1 have

been fulfilled to the satisfaction of such Lender, (ii) the decision of such Lender to execute and deliver to the Agent an executed counterpart of this Agreement was made by such Lender independently and without reliance on the Agent or any other Lender as to the satisfaction of any condition precedent set forth in this Section 8.1, and (iii) all documents sent to such Lender for approval consent, or satisfaction were acceptable to such Lender.

8.2 Conditions Precedent to Each Loan.

The obligation of the Lenders to make each Loan, including the initial Revolving Loans on the Closing Date, and the obligation of the Agent to cause the Letter of Credit Issuer to issue any Letter of Credit shall be subject to the further conditions precedent that on and as of the date of any such extension of credit:

(a) The following statements shall be true, and the acceptance by the Borrowers of any extension of credit shall be deemed to be a statement to the effect set forth in clauses (i), (ii) and (iii) with the same effect as the delivery to the Agent and the Lenders of a certificate signed by a Responsible Officer, dated the date of such extension of credit, stating that:

(i) The representations and warranties contained in this Agreement and the other Loan Documents are correct in all material respects on and as of the date of such extension of credit as though made on and as of such date, other than any such representation or warranty which relates to a specified prior date and except to the extent the Agent and the Lenders have been notified in writing by the Borrowers that any representation or warranty is not correct and the Required Lenders have explicitly waived in writing compliance with such representation or warranty; and

(ii) No event has occurred and is continuing, or would result from such extension of credit, which constitutes a Default or an Event of Default.

(b) No such Borrowing shall exceed Availability, provided, however, that the foregoing conditions precedent are not conditions to each Lender participating in or reimbursing the Bank or the Agent for such Lenders' Pro Rata Share of any Ex-Im Bank Revolving Loans, Non-Ratable Loan or Agent Advance made in accordance with the

provisions of Sections 1.2(h) and (i).

ARTICLE 9
DEFAULT; REMEDIES

9.1 Events of Default.

It shall constitute an event of default ("Event of Default") if any one or more of the following shall occur for any reason:

(a) any failure by any Borrower to pay the principal of or interest or premium on any of the Obligations or any fee or other amount owing hereunder when due, whether upon demand or otherwise and, with respect only to the failure to pay interest, such failure shall continue for three (3) days or more;

(b) any representation or warranty made or deemed made by any Borrower in this Agreement or by any Borrower in any of the other Loan Documents, any Financial Statement, or any certificate furnished by the Parent or any other Borrower at any time to the Agent or any Lender shall prove to be untrue in any material respect as of the date on which made, deemed made, or furnished;

(c) (i) any default shall occur in the observance or performance of any of the covenants and agreements contained in Sections 7.2, 7.5, 7.9-7.27, or Section 11 of the Security Agreement, (ii) any default shall occur in the observance or performance of any of the covenants and agreements contained in Sections 5.2 or 5.3 and such default shall continue for five (5) days or more, or, if such default is capable of being cured, five (5) days following the Borrowers' receipt of notice of the occurrence of any such Event of Default from any Lender or the Agent or following the date on which any Borrower obtained knowledge thereof; or (iii) any default shall occur in the observance or performance of any of the other covenants or agreements contained in any other Section of this Agreement or any other Loan Document, any other Loan Documents, or any other agreement entered into at any time to which any Borrower and the Agent or any Lender are party (including in respect of any Bank Products) and such default shall continue for fifteen (15) days or more, or, if such default is capable of being cured, fifteen (15) days following the Borrowers' receipt of notice of the occurrence of any such Event of Default from any Lender or the Agent or following the date on which any Borrower obtained knowledge thereof;

(d) any default shall occur with respect to any Debt (other than the Obligations) of any Borrower in an outstanding principal amount which exceeds \$5,000,000, or under any agreement or instrument under or pursuant to which any such Debt may have been issued, created, assumed, or guaranteed by any Borrower, and such default shall continue for more than the period of grace, if any, therein specified, if the effect thereof (with or without the giving of notice or further lapse of time or both) is to accelerate, or to permit the holders of any such Debt to accelerate, the maturity of any such Debt; or any such Debt shall be declared due and payable or be required to be prepaid (other than by a regularly scheduled required prepayment) prior to the stated maturity thereof;

(e) the Parent or any other Borrower shall (i) file a voluntary petition in bankruptcy or file a voluntary petition or an answer or otherwise commence any action or proceeding seeking reorganization, arrangement or readjustment of its debts or for any other relief under the federal Bankruptcy Code, as amended, or under any other bankruptcy or insolvency act or law, state or federal, now or hereafter existing, or consent to, approve of, or acquiesce in, any

such petition, action or proceeding; (ii) apply for or acquiesce in the appointment of a receiver, assignee, liquidator, sequestrator, custodian,

monitor, trustee or similar officer for it or for all or any part of its property; (iii) make an assignment for the benefit of creditors; or (iv) be unable generally to pay its debts as they become due;

(f) an involuntary petition shall be filed or an action or proceeding otherwise commenced seeking reorganization, arrangement, consolidation or readjustment of the debts of the Parent or any other Borrower or for any other relief under the federal Bankruptcy Code, as amended, or under any other bankruptcy or insolvency act or law, state or federal, now or hereafter existing and such petition or proceeding shall not be dismissed within thirty (30) days after the filing or commencement thereof or an order of relief shall be entered with respect thereto;

(g) a receiver, assignee, liquidator, sequestrator, custodian, monitor, trustee or similar officer for the Parent or any other Borrower or for all or any part of its property shall be appointed or a warrant of attachment, execution or similar process shall be issued against any part of the property of the Parent or any other Borrower;

(h) the Parent or any other Borrower shall file a certificate of dissolution under applicable state law or shall be liquidated, dissolved or wound-up or shall commence or have commenced against it any action or proceeding for dissolution, winding-up or liquidation, or shall take any corporate action in furtherance thereof;

(i) all or any material part of the property of the Parent or any other Borrower shall be nationalized, expropriated or condemned, seized or otherwise appropriated, or custody or control of such property or of the Parent or such other Borrower shall be assumed by any Governmental Authority or any court of competent jurisdiction at the instance of any Governmental Authority, except where contested in good faith by proper proceedings diligently pursued where a stay of enforcement is in effect;

(j) any Loan Document shall be terminated, revoked or declared void or invalid or unenforceable or challenged by any Borrower;

(k) one or more judgments, orders, decrees or arbitration awards is entered against any Borrower involving in the aggregate liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related or unrelated series of transactions, incidents or conditions, in an amount equal to the lesser of fifty percent (50%) of Availability or \$5,000,000, and the same shall remain unsatisfied, unvacated and unstayed pending appeal for a period of thirty (30) days after the entry thereof;

(l) any loss, theft, damage or destruction of any item or items of Collateral or other property of the Parent or any Borrower occurs which could reasonably be expected to cause a Material Adverse Effect and is not adequately covered by insurance;

(m) there is filed against the Parent or any other Borrower any action, suit or proceeding under any federal or state racketeering statute (including the Racketeer

Influenced and Corrupt Organization Act of 1970), which action, suit or

proceeding (i) is not dismissed within one hundred twenty (120) days, and (ii) could reasonably be expected to result in the confiscation or forfeiture of any material portion of the Collateral;

(n) for any reason other than the failure of the Agent to take any action available to it to maintain perfection of the Agent's Liens, pursuant to the Loan Documents, any Loan Document ceases to be in full force and effect or any Lien with respect to any material portion of the Collateral intended to be secured thereby ceases to be, or is not, valid, perfected and prior to all other Liens (other than Permitted Liens) or is terminated, revoked or declared void;

(o) there occurs a Change of Control; or

(p) there occurs an event having a Material Adverse Effect.

9.2 Remedies.

(a) If a Default or an Event of Default exists, the Agent may, in its discretion, and shall, at the direction of the Required Lenders, do one or more of the following at any time or times and in any order, upon notice to or demand on any Borrower: (i) reduce the Maximum Revolver Amount, or the advance rates against Eligible Accounts and/or Eligible Inventory used in computing the Borrowing Base, or reduce one or more of the other elements used in computing the Borrowing Base; (ii) restrict the amount of or refuse to make Revolving Loans; and (iii) restrict or refuse to provide Letters of Credit or Credit Support. If an Event of Default exists, the Agent shall, at the direction of the Required Lenders, do one or more of the following, in addition to the actions described in the preceding sentence, at any time or times and in any order, upon notice to or demand on the Borrowers: (A) terminate the Commitments and this Agreement; (B) declare any or all Obligations to be immediately due and payable; provided, however, that upon the occurrence of any Event of Default described in Sections 9.1(e), 9.1(f), 9.1(g), or 9.1(h), the Commitments shall automatically and immediately expire and all Obligations shall automatically become immediately due and payable without notice or demand of any kind; (C) require the Borrowers to cash collateralize all outstanding Letter of Credit Obligations; and (D) pursue its other rights and remedies under the Loan Documents and applicable law.

(b) If an Event of Default has occurred and is continuing: (i) the Agent shall have for the benefit of the Lenders, in addition to all other rights of the Agent and the Lenders, the rights and remedies of a secured party under the Loan Documents and the UCC; (ii) the Agent may, at any time, take possession of the Collateral and keep it on any Borrower's premises, at no cost to the Agent or any Lender, or remove any part of it to such other place or places as the Agent may desire, or the Borrowers shall, upon the Agent's demand, at the Borrowers' cost, assemble the Collateral and make it available to the Agent at a place reasonably convenient to the Agent; and (iii) the Agent may sell and deliver any Collateral at public or private sales, for cash, upon credit or otherwise, at such

prices and upon such terms as the Agent deems advisable, in its sole discretion, and may, if the Agent deems it reasonable, postpone or adjourn any sale of the Collateral by an announcement at the time and place of sale or of such postponed or adjourned sale without giving a new notice of sale. Without in any way requiring notice to be given in the following manner, each Borrower agrees that any notice by the Agent of sale, disposition or other intended action hereunder or in connection herewith, whether required by the UCC or otherwise, shall constitute reasonable notice to each Borrower if such notice is mailed by registered or certified mail, return receipt requested, postage

prepaid, or is delivered personally against receipt, at least five (5) Business Days prior to such action to each Borrower's address specified in or pursuant to Section 14.8. If any Collateral is sold on terms other than payment in full at the time of sale, no credit shall be given against the Obligations until the Agent or the Lenders receive payment, and if the buyer defaults in payment, the Agent may resell the Collateral without further notice to any Borrower. In the event the Agent seeks to take possession of all or any portion of the Collateral by judicial process, each Borrower irrevocably waives: (A) the posting of any bond, surety or security with respect thereto which might otherwise be required; (B) any demand for possession prior to the commencement of any suit or action to recover the Collateral; and (C) any requirement that the Agent retain possession and not dispose of any Collateral until after trial or final judgment. Each Borrower agrees that the Agent has no obligation to preserve rights to the Collateral or marshal any Collateral for the benefit of any Person. The Agent is hereby granted a license or other right to use, without charge, the Borrowers' labels, patents, copyrights, name, trade secrets, trade names, trademarks, and advertising matter, or any similar property, in completing production of, advertising or selling any Collateral, and the Borrowers' rights under all licenses and all franchise agreements shall inure to the Agent's benefit for such purpose. The proceeds of sale shall be applied first to all expenses of sale, including attorneys' fees, and then to the Obligations. The Agent will return any excess to the Borrowers and the Borrowers shall remain liable for any deficiency.

(c) If an Event of Default occurs, each Borrower hereby waives all rights to notice and hearing prior to the exercise by the Agent of the Agent's rights to repossess the Collateral without judicial process or to reply, attach or levy upon the Collateral without notice or hearing.

ARTICLE 10 TERM AND TERMINATION

10.1 Term and Termination.

The term of this Agreement shall end on the Stated Termination Date unless sooner terminated in accordance with the terms hereof. The Agent upon direction from the Required Lenders may terminate this Agreement upon the occurrence of an Event of Default by the giving of such notice as may be required pursuant to Section 9.2(a). Upon the effective date of termination of this Agreement for any reason whatsoever, all Obligations (including all unpaid principal, accrued and unpaid interest and any early termination or prepayment fees or penalties)

shall become immediately due and payable and the Borrowers shall immediately arrange for the cancellation and return of Letters of Credit then outstanding. Notwithstanding the termination of this Agreement, until all Obligations are indefeasibly paid and performed in full in immediately available funds, the Borrowers shall remain bound by the terms of this Agreement and shall not be relieved of any of its Obligations hereunder or under any other Loan Document, and the Agent and the Lenders shall retain all their rights and remedies hereunder (including the Agent's Liens in and all rights and remedies with respect to all then existing and after-arising Collateral).

ARTICLE 11 AMENDMENTS; WAIVERS; PARTICIPATIONS; ASSIGNMENTS; SUCCESSORS

11.1 Amendments and Waivers.

(a) No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent with respect to any departure by the Borrowers therefrom, shall be effective unless the same shall be in writing and signed by the Majority Lenders (or by the Agent at the written request of the Majority Lenders) and the Borrowers and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such waiver, amendment, or consent shall, unless in writing and signed by all the Lenders and the Borrowers and acknowledged by the Agent, do any of the following:

- (i) increase or extend the Commitment of any Lender;
- (ii) postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees or other amounts due to the Lenders (or any of them) hereunder or under any other Loan Document;
- (iii) reduce the principal of, or the rate of interest specified herein on any Loan, or any fees or other amounts payable hereunder or under any other Loan Document;
- (iv) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans which is required for the Lenders or any of them to take any action hereunder;
- (v) increase any of the percentages set forth in the definition of the Borrowing Base;
- (vi) amend this Section or any provision of this Agreement providing for consent or other action by all Lenders;
- (vii) release any Guaranties of the Obligations or release Collateral other than as permitted by Section 12.11;
- (viii) change the definitions of "Majority Lenders" or "Required Lenders"; or
- (ix) increase the Maximum Revolver Amount or Letter of Credit Subfacility;

provided, however, the Agent may, in its sole discretion and notwithstanding the limitations contained in clauses (v) and (ix) above and any other terms of this Agreement, make Agent Advances in accordance with Section 1.2(i) and, provided further, that no amendment, waiver or consent shall, unless in writing and signed by the Agent, affect the rights or duties of the Agent under this Agreement or any other Loan Document and provided further, that Schedule 1.2 hereto (Commitments) may be amended from time to time by Agent alone to reflect assignments of Commitments in accordance herewith. Notwithstanding the limitations contained in Section 11.1(a) above, the Lenders acknowledge that the Borrowers intend to apply to the Ex-Im Bank for qualification under the Ex-Im Bank Working Capital Guarantee Program after the Closing Date. To the extent the Agent approves the form of the documents governing Borrowers' application, Lenders to this Agreement as of the date of such approval shall execute any amendments without any amendment fee that may be necessary in the reasonable discretion of Agent to this Agreement and to the other Loan Documents to enable the Agent and the Lenders to make Ex-Im Bank Revolving Loans to the Borrowers on the terms contained herein and in the Borrowers' Ex-Im Agreement (provided however, that in no event shall the provisions of such documents amend or eliminate the ten percent (10%) reserve requirement relating to Ex-Im Bank Revolving Loans set forth in clause (i) in the definition of "Reserves").

(b) If any fees are paid to the Lenders as consideration for amendments, waivers or consents with respect to this Agreement, at Agent's election, such fees may be paid only to those Lenders that agree to such amendments, waivers or consents within the time specified for submission thereof.

(c) If, in connection with any proposed amendment, waiver or consent (a "Proposed Change"):

(i) requiring the consent of all Lenders, the consent of Required Lenders is obtained, but the consent of other Lenders is not obtained (any such Lender whose consent is not obtained as described in this clause (i) and in clause (ii) below being referred to as a "Non-Consenting Lender"), or

(ii) requiring the consent of Required Lenders, the consent of Majority Lenders is obtained,

then, so long as the Agent is not a Non-Consenting Lender, at the Borrowers' request, the Agent or an Eligible Assignee shall have the right (but not the obligation) with the Agent's approval, to purchase from the Non-Consenting Lenders, and the Non-Consenting Lenders agree that they shall sell, all the Non-Consenting Lenders' Commitments for an amount equal to the principal

balances thereof and all accrued interest and fees with respect thereto through the date of sale pursuant to Assignment and Acceptance Agreement(s), without premium or discount.

11.2 Assignments; Participations.

(a) Any Lender may, with the written consent of the Agent (which consent shall not be unreasonably withheld), assign and delegate to one or more Eligible Assignees (provided that no consent of the Agent shall be required in connection with any assignment and delegation by a Lender to an Affiliate of such Lender) (each an "Assignee") all, or any ratable part of all, of the Loans, the Commitments and the other rights and obligations of such Lender hereunder, in a minimum amount of \$5,000,000 (provided that, unless an assignor Lender has assigned and delegated all of its Loans and Commitments, no such assignment and/or delegation shall be permitted unless, after giving effect thereto, such assignor Lender retains a Commitment in a minimum amount of \$5,000,000; provided, however, that the Borrowers and the Agent may continue to deal solely and directly with such Lender in connection with the interest so assigned to an Assignee until (i) written notice of such assignment, together with payment instructions, addresses and related information with respect to the Assignee, shall have been given to the Borrowers and the Agent by such Lender and the Assignee; (ii) such Lender and its Assignee shall have delivered to the Borrowers and the Agent an Assignment and Acceptance in the form of Exhibit F ("Assignment and Acceptance") together with any note or notes subject to such assignment and (iii) the assignor Lender or Assignee has paid to the Agent a processing fee in the amount of \$3,500. The Borrowers agree to promptly execute and deliver new promissory notes and replacement promissory notes as reasonably requested by the Agent to evidence assignments of the Loans and Commitments in accordance herewith.

(b) From and after the date that the Agent notifies the assignor Lender that it has received an executed Assignment and Acceptance and payment of the above-referenced processing fee, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations, including, but not limited to, the obligation to participate in Letters of Credit and Credit Support have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Lender under the Loan Documents, and

(ii) the assignor Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the Assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability,

genuineness, sufficiency or value of this Agreement or any other Loan Document furnished pursuant hereto or the attachment, perfection, or priority of any Lien granted by the Borrowers to the Agent or any Lender in the Collateral; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrowers or the performance or observance by the Borrowers of any of its obligations under this Agreement or any other Loan Document furnished pursuant hereto; (iii) such Assignee confirms that it has received a copy of this Agreement, together with such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such Assignee will, independently and without reliance upon the Agent, such assigning Lender or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such Assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers, including the discretionary rights and incidental power, as are reasonably incidental thereto; and (vi) such Assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) Immediately upon satisfaction of the requirements of Section 11.2(a), this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Commitments arising therefrom. The Commitment allocated to each Assignee shall reduce such Commitments of the assigning Lender pro tanto.

(e) Any Lender may at any time sell to one or more commercial banks, financial institutions, or other Persons not Affiliates of the Borrowers (a "Participant") participating interests in any Loans, the Commitment of that Lender and the other interests of that Lender (the "originating Lender") hereunder and under the other Loan Documents; provided, however, that (i) the originating Lender's obligations under this Agreement shall remain unchanged, (ii) the originating Lender shall remain solely responsible for the performance of such obligations, (iii) the Borrowers and the Agent shall continue to deal solely and directly with the originating Lender in connection with the originating Lender's rights and obligations under this Agreement and the other Loan Documents, and (iv) no Lender shall transfer or grant any participating interest under which the Participant has rights to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document except the matters set forth

in Section 11.1(a) (i), (ii) and (iii), and all amounts payable by the Borrowers hereunder shall be determined as if such Lender had not sold such participation.

(f) Notwithstanding any other provision in this Agreement, any Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement in favor of any Federal Reserve Bank in accordance with Regulation A of the FRB or U.S. Treasury Regulation 31 CFR ss.203.14, and such Federal

Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

ARTICLE 12 THE AGENT

12.1 Appointment and Authorization.

Each Lender hereby designates and appoints Bank as its Agent under this Agreement and the other Loan Documents and each Lender hereby irrevocably authorizes the Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. The Agent agrees to act as such on the express conditions contained in this Article 12. The provisions of this Article 12 are solely for the benefit of the Agent and the Lenders and the Borrowers shall have no rights as a third party beneficiary of any of the provisions contained herein. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" in this Agreement with reference to the Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties. Except as expressly otherwise provided in this Agreement, the Agent shall have and may use its sole discretion with respect to exercising or refraining from exercising any discretionary rights or taking or refraining from taking any actions which the Agent is expressly entitled to take or assert under this Agreement and the other Loan Documents, including (a) the determination of the applicability of ineligibility criteria with respect to the calculation of the Borrowing Base, (b) the making of Agent Advances pursuant to Section 1.2(i), and (c) the exercise of remedies pursuant to Section 9.2, and any action so taken or not taken shall be deemed consented to by the Lenders.

12.2 Delegation of Duties.

The Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects as long as such selection was made without gross negligence or willful misconduct.

12.3 Liability of Agent.

None of the Agent-Related Persons shall (i) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (ii) be responsible in any manner to any of the Lenders for any recital, statement, representation or warranty made by the Borrowers or Affiliate of any Borrower, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of any Borrower or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrowers or any of the Borrowers' Affiliates.

12.4 Reliance by Agent.

The Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to the Borrowers), independent accountants and other experts selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders (or all Lenders if so required by Section 11.1) and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

12.5 Notice of Default.

The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, unless the Agent shall have received written notice from a Lender or the Borrowers referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default." The Agent will notify the Lenders of its receipt of any such notice. The Agent shall take such action with respect to such Default or Event of Default as may be requested by the Required Lenders in accordance with Section 9; provided, however, that unless and until the Agent has received any such request, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable.

12.6 Credit Decision.

Each Lender acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by the Agent hereinafter taken, including any review of the affairs of the Borrowers and their Affiliates, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender. Each Lender represents to the Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrowers

and their Affiliates, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to the Borrowers. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrowers. Except for notices, reports and other documents expressly herein required to be furnished to the Lenders by the Agent, the Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of the Borrowers which may come into the possession of any of the Agent-Related Persons.

12.7 Indemnification.

Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand the Agent-Related Persons (to the extent not reimbursed by or on behalf of the Borrowers and without limiting the obligation of the Borrowers to do so), in accordance with their Pro Rata Shares, from and against any and all Indemnified Liabilities as such term is defined in Section 14.11; provided, however, that no Lender shall be liable for the payment to the Agent-Related Persons of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender shall reimburse the Agent upon demand for its Pro Rata Share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Agent is not reimbursed for such expenses by or on behalf of the Borrowers. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of the Agent.

12.8 Agent in Individual Capacity.

The Bank and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with the Parent and its Subsidiaries and Affiliates as though the Bank were not the Agent hereunder and without notice to or consent of the Lenders. The Bank or its Affiliates may receive information regarding the Parent, each

Borrower, its Affiliates and Account Debtors (including information that may be subject to confidentiality obligations in favor of Parent or any other Borrower) and the Lenders acknowledge that the Bank shall be under no obligation to provide such information to them. With respect to its Loans, the Bank shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Agent, and the terms "Lender" and "Lenders" include the Bank in its individual capacity.

12.9 Successor Agent.

The Agent may resign as Agent upon at least 30 days' prior notice to the Lenders and the Borrowers, such resignation to be effective upon the acceptance of a successor agent to its appointment as Agent. In the event the Bank sells all of its Commitment and Revolving Loans as part of a sale, transfer or other disposition by the Bank of substantially all of its loan portfolio, the Bank shall resign as Agent and such purchaser or transferee shall become the successor Agent hereunder. Subject to the foregoing, if the Agent resigns under this Agreement, the Required Lenders shall appoint from among the Lenders a

successor agent for the Lenders. If no successor agent is appointed prior to the effective date of the resignation of the Agent, the Agent may appoint, after consulting with the Lenders and the Borrowers, a successor agent from among the Lenders. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Agent and the term "Agent" shall mean such successor agent and the retiring Agent's appointment, powers and duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article 12 shall continue to inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

12.10 Withholding Tax.

(a) If any Lender is a "foreign corporation, partnership or trust" within the meaning of the Code and such Lender claims exemption from, or a reduction of, U.S. withholding tax under Sections 1441 or 1442 of the Code, such Lender agrees with and in favor of the Agent, to deliver to the Agent:

(i) if such Lender claims an exemption from, or a reduction of, withholding tax under a United States of America tax treaty, properly completed IRS Forms W-8BEN and W-8ECI before the payment of any interest in the first calendar year and before the payment of any interest in each third succeeding calendar year during which interest may be paid under this Agreement;

(ii) if such Lender claims that interest paid under this Agreement is exempt from United States of America withholding tax because it is effectively connected with a United States of America trade or business of such Lender, two properly completed and executed copies of IRS Form W-8ECI before the payment of any interest is due in the first taxable year of such Lender and in each succeeding taxable year of such Lender during which interest may be paid under this Agreement, and IRS Form W-9; and

(iii) such other form or forms as may be required under the Code or other laws of the United States of America as a condition to exemption from, or reduction of, United States of America withholding tax.

Such Lender agrees to promptly notify the Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(b) If any Lender claims exemption from, or reduction of, withholding tax under a United States of America tax treaty by providing IRS Form FW-8BEN and such Lender sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations owing to such Lender, such Lender agrees to notify the Agent of the percentage amount in which it is no longer the beneficial owner of Obligations of the Borrowers to such Lender. To the extent of such percentage amount, the Agent will treat such Lender's IRS Form W-8BEN as no longer valid.

(c) If any Lender claiming exemption from United States of America withholding tax by filing IRS Form W-8ECI with the Agent sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations owing to such Lender, such Lender agrees to undertake sole responsibility for complying with the withholding tax requirements imposed by Sections 1441 and 1442 of the Code.

(d) If any Lender is entitled to a reduction in the applicable withholding tax, the Agent may withhold from any interest payment to

such Lender an amount equivalent to the applicable withholding tax after taking into account such reduction. If the forms or other documentation required by subsection (a) of this Section are not delivered to the Agent, then the Agent may withhold from any interest payment to such Lender not providing such forms or other documentation an amount equivalent to the applicable withholding tax.

(e) If the IRS or any other Governmental Authority of the United States of America or other jurisdiction asserts a claim that the Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered, was not properly executed, or because such Lender failed to notify the Agent of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason) such Lender shall indemnify the Agent fully for all amounts paid, directly or indirectly, by the Agent as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to the Agent under this Section, together with all costs and expenses (including Attorney Costs). The obligation of the Lenders under this subsection shall survive the payment of all Obligations and the resignation or replacement of the Agent.

12.11 Collateral Matters.

(a) The Lenders hereby irrevocably authorize the Agent, at its option and in its sole discretion, to release any Agent's Liens upon any Collateral (i) upon the termination of the Commitments and payment and satisfaction in full by Borrowers of all

Loans and reimbursement obligations in respect of Letters of Credit and Credit Support, and the termination of all outstanding Letters of Credit (whether or not any of such obligations are due) and all other Obligations; (ii) constituting property being sold or disposed of in compliance with Section 7.9 (including the sale of the Corporate Headquarters); provided, that the Borrowers shall promptly notify the Agent of any sale or disposition of such property having a value in excess of \$2,000,000, (iii) constituting property in which the Borrowers owned no interest at the time the Lien was granted or at any time thereafter; or (iv) constituting property leased to a Borrower under a lease which has expired or been terminated in a transaction permitted under this Agreement. Except as provided above, the Agent will not release any of the Agent's Liens without the prior written authorization of the Lenders; provided that the Agent may, in its discretion, release the Agent's Liens on Collateral valued in the aggregate not in excess of \$500,000 during each Fiscal Year without the prior written authorization of the Lenders and the Agent may release the Agent's Liens on Collateral valued in the aggregate not in excess of \$1,000,000 during each Fiscal Year with the prior written authorization of Required Lenders. Upon request by the Agent or the Borrowers at any time, the Lenders will confirm in writing the Agent's authority to release any Agent's Liens upon particular types or items of Collateral pursuant to this Section 12.11.

(b) Upon receipt by the Agent of any authorization required pursuant to Section 12.11(a) from the Lenders of the Agent's authority to release Agent's Liens upon particular types or items of Collateral, and upon at least five (5) Business Days prior written request by the Borrowers, the Agent shall (and is hereby irrevocably authorized by the Lenders to) execute such documents as may be necessary to evidence the release of the Agent's Liens upon such Collateral; provided, however, that (i) the Agent shall not be required to execute any such document on terms which, in the Agent's opinion, would expose the Agent to liability or create any obligation or entail any consequence other than the release of such Liens without recourse or warranty, and (ii) such

release shall not in any manner discharge, affect or impair the Obligations or any Liens (other than those expressly being released) upon (or obligations of the Borrowers in respect of) all interests retained by the Borrowers, including the proceeds of any sale, all of which shall continue to constitute part of the Collateral.

(c) The Agent shall have no obligation whatsoever to any of the Lenders to assure that the Collateral exists or is owned by the Borrowers or is cared for, protected or insured or has been encumbered, or that the Agent's Liens have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to the Agent pursuant to any of the Loan Documents, it being understood and agreed that in respect of the Collateral, or any act, omission or event related thereto, the Agent may act in any manner it may deem appropriate, in its sole discretion given the Agent's own interest in the Collateral in its capacity as one of the Lenders and that the Agent shall have no other duty or liability whatsoever to any Lender as to any of the foregoing.

12.12 Restrictions on Actions by Lenders; Sharing of Payments.

(a) Each of the Lenders agrees that it shall not, without the express consent of all Lenders, and that it shall, to the extent it is lawfully entitled to do so, upon the request of all Lenders, set off against the Obligations, any amounts owing by such Lender to the Borrowers or any accounts of the Borrowers now or hereafter maintained with such Lender. Each of the Lenders further agrees that it shall not, unless specifically requested to do so by the Agent, take or cause to be taken any action to enforce its rights under this Agreement or against the Borrowers, including the commencement of any legal or equitable proceedings, to foreclose any Lien on, or otherwise enforce any security interest in, any of the Collateral.

(b) If at any time or times any Lender shall receive (i) by payment, foreclosure, setoff or otherwise, any proceeds of Collateral or any payments with respect to the Obligations of the Borrowers to such Lender arising under, or relating to, this Agreement or the other Loan Documents, except for any such proceeds or payments received by such Lender from the Agent pursuant to the terms of this Agreement, or (ii) payments from the Agent in excess of such Lender's ratable portion of all such distributions by the Agent, such Lender shall promptly (A) turn the same over to the Agent, in kind, and with such endorsements as may be required to negotiate the same to the Agent, or in same day funds, as applicable, for the account of all of the Lenders and for application to the Obligations in accordance with the applicable provisions of this Agreement, or (B) purchase, without recourse or warranty, an undivided interest and participation in the Obligations owed to the other Lenders so that such excess payment received shall be applied ratably as among the Lenders in accordance with their Pro Rata Shares; provided, however, that if all or part of such excess payment received by the purchasing party is thereafter recovered from it, those purchases of participations shall be rescinded in whole or in part, as applicable, and the applicable portion of the purchase price paid therefor shall be returned to such purchasing party, but without interest except to the extent that such purchasing party is required to pay interest in connection with the recovery of the excess payment.

12.13 Agency for Perfection.

Each Lender hereby appoints each other Lender as agent for the purpose of perfecting the Agent's security interest in assets which, in accordance with

Article 9 of the UCC can be perfected only by possession. Should any Lender (other than the Agent) obtain possession of any such Collateral, such Lender shall notify the Agent thereof, and, promptly upon the Agent's request therefor shall deliver such Collateral to the Agent or in accordance with the Agent's instructions.

12.14 Payments by Agent to Lenders.

All payments to be made by the Agent to the Lenders shall be made by bank wire transfer or internal transfer of immediately available funds to each Lender pursuant to wire transfer instructions delivered in writing to the Agent on or prior to the Closing Date (or if such Lender is

an Assignee, on the applicable Assignment and Acceptance), or pursuant to such other wire transfer instructions as each party may designate for itself by written notice to the Agent. Concurrently with each such payment, the Agent shall identify whether such payment (or any portion thereof) represents principal, premium or interest on the Revolving Loans or otherwise. Unless the Agent receives notice from the Borrowers prior to the date on which any payment is due to the Lenders that the Borrowers will not make such payment in full as and when required, the Agent may assume that the Borrowers have made such payment in full to the Agent on such date in immediately available funds and the Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrowers have not made such payment in full to the Agent, each Lender shall repay to the Agent on demand such amount distributed to such Lender, together with interest thereon at the Federal Funds Rate for each day from the date such amount is distributed to such Lender until the date repaid.

12.15 Settlement.

(a) (i) Each Lender's funded portion of the Revolving Loans is intended by the Lenders to be equal at all times to such Lender's Pro Rata Share of the outstanding Revolving Loans. Notwithstanding such agreement, the Agent, the Bank, and the other Lenders agree (which agreement shall not be for the benefit of or enforceable by the Borrowers) that in order to facilitate the administration of this Agreement and the other Loan Documents, settlement among them as to the Revolving Loans, including the Ex-Im Bank Revolving Loans, the Non-Ratable Loans and the Agent Advances shall take place on a periodic basis in accordance with the following provisions:

(ii) The Agent shall request settlement ("Settlement") with the Lenders on at least a weekly basis, or on a more frequent basis at Agent's election, (A) on behalf of the Bank, with respect to each outstanding Non-Ratable Loan, (B) Ex-Im Bank Revolving Loans, (C) for itself, with respect to each Agent Advance, and (D) with respect to collections received, in each case, by notifying the Lenders of such requested Settlement by telecopy, telephone or other similar form of transmission, of such requested Settlement, no later than 12:00 noon (Charlotte, North Carolina time) on the date of such requested Settlement (the "Settlement Date"). Each Lender (other than the Bank, in the case of Ex-Im Bank Revolving Loans, Non-Ratable Loans and the Agent in the case of Agent Advances) shall transfer the amount of such Lender's Pro Rata Share of the outstanding principal amount of the Ex-Im Bank Revolving Loans, Non-Ratable Loans and Agent Advances with respect to each Settlement to the Agent, to Agent's account, not later than 2:00 p.m. (Charlotte, North Carolina time), on the Settlement Date applicable thereto. Settlements may occur during the continuation of a Default or an Event of Default and whether or not the applicable

conditions precedent set forth in Article 8 have then been satisfied. Such amounts made available to the Agent shall be applied against the amounts of the applicable Ex-Im Bank Revolving Loans, Non-Ratable Loan or Agent Advance and, together with the portion of such Ex-Im Bank Revolving Loans, Non-Ratable Loan or Agent

Advance representing the Bank's Pro Rata Share thereof, shall constitute Revolving Loans of such Lenders. If any such amount is not transferred to the Agent by any Lender on the Settlement Date applicable thereto, the Agent shall be entitled to recover such amount on demand from such Lender together with interest thereon at the Federal Funds Rate for the first three (3) days from and after the Settlement Date and thereafter at the Interest Rate then applicable to the Revolving Loans (A) on behalf of the Bank, with respect to each outstanding Ex-Im Bank Revolving Loan or Non-Ratable Loan, and (B) for itself, with respect to each Agent Advance.

(iii) Notwithstanding the foregoing, not more than one (1) Business Day after demand is made by the Agent (whether before or after the occurrence of a Default or an Event of Default and regardless of whether the Agent has requested a Settlement with respect to a Ex-Im Bank Revolving Loan, Non-Ratable Loan or Agent Advance), each other Lender (A) shall irrevocably and unconditionally purchase and receive from the Bank or the Agent, as applicable, without recourse or warranty, an undivided interest and participation in such Ex-Im Bank Revolving Loan, Non-Ratable Loan or Agent Advance equal to such Lender's Pro Rata Share of such Ex-Im Bank Revolving Loan, Non-Ratable Loan or Agent Advance and (B) if Settlement has not previously occurred with respect to such Ex-Im Bank Revolving Loans, Non-Ratable Loans or Agent Advances, upon demand by Bank or Agent, as applicable, shall pay to Bank or Agent, as applicable, as the purchase price of such participation an amount equal to one-hundred percent (100%) of such Lender's Pro Rata Share of such Ex-Im Bank Revolving Loans, Non-Ratable Loans or Agent Advances. If such amount is not in fact made available to the Agent by any Lender, the Agent shall be entitled to recover such amount on demand from such Lender together with interest thereon at the Federal Funds Rate for the first three (3) days from and after such demand and thereafter at the Interest Rate then applicable to Base Rate Revolving Loans.

(iv) From and after the date, if any, on which any Lender purchases an undivided interest and participation in any Ex-Im Bank Revolving Loan, Non-Ratable Loan or Agent Advance pursuant to clause (iii) above, the Agent shall promptly distribute to such Lender, such Lender's Pro Rata Share of all payments of principal and interest and all proceeds of Collateral received by the Agent in respect of such Ex-Im Bank Revolving Loan, Non-Ratable Loan or Agent Advance.

(v) Between Settlement Dates, the Agent, to the extent no Agent Advances are outstanding, may pay over to the Bank any payments received by the Agent, which in accordance with the terms of this Agreement would be applied to the reduction of the Revolving Loans, for application to the Bank's Revolving Loans including Ex-Im Bank Revolving Loans and Non-Ratable Loans. If, as of any Settlement Date, collections received since the then immediately preceding Settlement Date have been applied to the Bank's

Revolving Loans (other than to Ex-Im Bank Revolving Loans, Non-Ratable Loans or Agent Advances in which such Lender has not yet funded its purchase of a participation pursuant to clause (iii) above), as provided for in the previous sentence, the Bank shall pay to the Agent for the accounts of the Lenders, to be applied to the outstanding Revolving Loans of such Lenders, an amount such that each Lender shall, upon receipt of such amount, have, as of such Settlement Date, its Pro Rata Share of the Revolving Loans. During the period between Settlement Dates, the Bank with respect to Ex-Im Bank Revolving Loans and Non-Ratable Loans, the Agent with respect to Agent Advances, and each Lender with respect to the Revolving Loans other than Ex-Im Bank Revolving Loans, Non-Ratable Loans and Agent Advances, shall be entitled to interest at the applicable rate or rates payable under this Agreement on the actual average daily amount of funds employed by the Bank, the Agent and the other Lenders.

(vi) Unless the Agent has received written notice from a Lender to the contrary, the Agent may assume that the applicable conditions precedent set forth in Article 8 have been satisfied and the requested Borrowing will not exceed Availability on any Funding Date for a Revolving Loan, Ex-Im Bank Revolving Loan or Non-Ratable Loan.

(b) Lenders' Failure to Perform. All Revolving Loans (other than Ex-Im Bank Revolving Loans, Non-Ratable Loans and Agent Advances) shall be made by the Lenders simultaneously and in accordance with their Pro Rata Shares. It is understood that (i) no Lender shall be responsible for any failure by any other Lender to perform its obligation to make any Revolving Loans hereunder, nor shall any Commitment of any Lender be increased or decreased as a result of any failure by any other Lender to perform its obligation to make any Revolving Loans hereunder, (ii) no failure by any Lender to perform its obligation to make any Revolving Loans hereunder shall excuse any other Lender from its obligation to make any Revolving Loans hereunder, and (iii) the obligations of each Lender hereunder shall be several, not joint and several.

(c) Defaulting Lenders. Unless the Agent receives notice from a Lender on or prior to the Closing Date or, with respect to any Borrowing after the Closing Date, at least one Business Day prior to the date of such Borrowing, that such Lender will not make available as and when required hereunder to the Agent that Lender's Pro Rata Share of a Borrowing, the Agent may assume that each Lender has made such amount available to the Agent in immediately available funds on the Funding Date. Furthermore, the Agent may, in reliance upon such assumption, make available to the Borrowers on such date a corresponding amount. If any Lender has not transferred its full Pro Rata Share to the Agent in immediately available funds and the Agent has transferred the corresponding amount to the Borrowers on the Business Day following such Funding Date that Lender shall make such amount available to the Agent, together with interest at the Federal Funds Rate for that day. A notice by the Agent submitted to any Lender with respect to amounts owing shall be conclusive, absent manifest error. If each Lender's full Pro Rata Share is transferred to the Agent as required, the amount transferred to the Agent shall constitute that Lender's Revolving Loan for all purposes of this Agreement.

If that amount is not transferred to the Agent on the Business Day following the Funding Date and the Agent has provided such funds to the

Borrowers, the Agent will notify the Borrowers of such failure to fund and, upon demand by the Agent, the Borrowers shall pay such amount to the Agent for the Agent's account, together with interest thereon for each day elapsed since the date of such Borrowing, at a rate per annum equal to the Interest Rate applicable at the time to the Revolving Loans comprising that particular Borrowing. The failure of any Lender to make any Revolving Loan on any Funding Date (any such Lender, prior to the cure of such failure, being hereinafter referred to as a "Defaulting Lender") shall not relieve any other Lender of its obligation hereunder to make a Revolving Loan on that Funding Date. No Lender shall be responsible for any other Lender's failure to advance such other Lenders' Pro Rata Share of any Borrowing.

(d) Retention of Defaulting Lender's Payments. The Agent shall not be obligated to transfer to a Defaulting Lender any payments made by Borrowers to the Agent for the Defaulting Lender's benefit; nor shall a Defaulting Lender be entitled to the sharing of any payments hereunder. Amounts payable to a Defaulting Lender shall instead be paid to or retained by the Agent. In its discretion, the Agent may loan Borrowers the amount of all such payments received or retained by it for the account of such Defaulting Lender. Any amounts so loaned to the Borrowers shall bear interest at the rate applicable to Base Rate Revolving Loans and for all other purposes of this Agreement shall be treated as if they were Revolving Loans, provided, however, that for purposes of voting or consenting to matters with respect to the Loan Documents and determining Pro Rata Shares, such Defaulting Lender shall be deemed not to be a "Lender". Until a Defaulting Lender cures its failure to fund its Pro Rata Share of any Borrowing (A) such Defaulting Lender shall not be entitled to any portion of the Unused Line Fee and (B) the Unused Line Fee shall accrue in favor of the Lenders which have funded their respective Pro Rata Shares of such requested Borrowing and shall be allocated among such performing Lenders ratably based upon their relative Commitments. This Section shall remain effective with respect to such Lender until such time as the Defaulting Lender shall no longer be in default of any of its obligations under this Agreement. The terms of this Section shall not be construed to increase or otherwise affect the Commitment of any Lender, or relieve or excuse the performance by the Borrowers of their duties and obligations hereunder.

(e) Removal of Defaulting Lender. At the Borrowers' request, the Agent or an Eligible Assignee reasonably acceptable to the Agent and the Borrowers shall have the right (but not the obligation) to purchase from any Defaulting Lender, and each Defaulting Lender shall, upon such request, sell and assign to the Agent or such Eligible Assignee, all of the Defaulting Lender's outstanding Commitments hereunder. Such sale shall be consummated promptly after Agent has arranged for a purchase by Agent or an Eligible Assignee pursuant to an Assignment and Acceptance, and at a price equal to the outstanding principal balance of the Defaulting Lender's Loans, plus accrued interest and fees, without premium or discount.

12.16 Letters of Credit; Intra-Lender Issues.

(a) Notice of Letter of Credit Balance. On each Settlement Date the Agent shall notify each Lender of the issuance of all Letters of Credit since the prior Settlement Date.

(b) Participations in Letters of Credit.

(i) Purchase of Participations. Immediately upon issuance of any Letter of Credit in accordance with Section 1.4(d), each Lender shall be deemed to have irrevocably and unconditionally purchased and received without recourse or warranty, an undivided interest and participation equal to such Lender's Pro Rata Share of the face amount of such Letter

of Credit or the Credit Support provided through the Agent to the Letter of Credit Issuer, if not the Bank, in connection with the issuance of such Letter of Credit (including all obligations of the Borrowers with respect thereto, and any security therefor or guaranty pertaining thereto).

(ii) Sharing of Reimbursement Obligation Payments. Whenever the Agent receives a payment from any Borrower on account of reimbursement obligations in respect of a Letter of Credit or Credit Support as to which the Agent has previously received for the account of the Letter of Credit Issuer thereof payment from a Lender, the Agent shall promptly pay to such Lender such Lender's Pro Rata Share of such payment from such Borrower. Each such payment shall be made by the Agent on the next Settlement Date.

(iii) Documentation. Upon the request of any Lender, the Agent shall furnish to such Lender copies of any Letter of Credit, Credit Support for any Letter of Credit, reimbursement agreements executed in connection therewith, applications for any Letter of Credit, and such other documentation as may reasonably be requested by such Lender.

(iv) Obligations Irrevocable. The obligations of each Lender to make payments to the Agent with respect to any Letter of Credit or with respect to their participation therein or with respect to any Credit Support for any Letter of Credit or with respect to the Revolving Loans made as a result of a drawing under a Letter of Credit and the obligations of the Borrower for whose account the Letter of Credit or Credit Support was issued to make payments to the Agent, for the account of the Lenders, shall be irrevocable and shall not be subject to any qualification or exception whatsoever, including any of the following circumstances:

(A) any lack of validity or enforceability of this Agreement or any of the other Loan Documents;

(B) the existence of any claim, setoff, defense or other right which the Borrowers may have at any time against a beneficiary named in a Letter of Credit or any transferee of any Letter of Credit (or any Person

for whom any such transferee may be acting), any Lender, the Agent, the issuer of such Letter of Credit, or any other Person, whether in connection with this Agreement, any Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transactions between the Borrowers or any other Person and the beneficiary named in any Letter of Credit);

(C) any draft, certificate or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(D) the surrender or impairment of any security for the performance or observance of any of the terms of any of the Loan Documents;

(E) the occurrence of any Default or Event of Default; or

(F) the failure of the Borrowers to satisfy the applicable conditions precedent set forth in Article 8.

(c) Recovery or Avoidance of Payments; Refund of Payments In Error. In the event any payment by or on behalf of the Borrowers received by the Agent with respect to any Letter of Credit or Credit Support provided for any Letter of Credit and distributed by the Agent to the Lenders on account of their respective participations therein is thereafter set aside, avoided or recovered from the Agent in connection with any receivership, liquidation or bankruptcy proceeding, the Lenders shall, upon demand by the Agent, pay to the Agent their respective Pro Rata Shares of such amount set aside, avoided or recovered, together with interest at the rate required to be paid by the Agent upon the amount required to be repaid by it. Unless the Agent receives notice from the Borrowers prior to the date on which any payment is due to the Lenders that the Borrowers will not make such payment in full as and when required, the Agent may assume that the Borrowers have made such payment in full to the Agent on such date in immediately available funds and the Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrowers have not made such payment in full to the Agent, each Lender shall repay to the Agent on demand such amount distributed to such Lender, together with interest thereon at the Federal Funds Rate for each day from the date such amount is distributed to such Lender until the date repaid.

(d) Indemnification by Lenders. To the extent not reimbursed by the Borrowers and without limiting the obligations of the Borrowers hereunder, the Lenders agree to indemnify the Letter of Credit Issuer ratably in accordance with their respective Pro Rata Shares, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including attorneys' fees) or disbursements of

any kind and nature whatsoever that may be imposed on, incurred by or asserted against the Letter of Credit Issuer in any way relating to or arising out of any Letter of Credit or the transactions contemplated thereby or any action taken or omitted by the Letter of Credit Issuer under any Letter of Credit or any Loan Document in connection therewith; provided that no Lender shall be liable for any of the foregoing to the extent it arises from the gross negligence or willful misconduct of the Person to be indemnified. Without limitation of the foregoing, each Lender agrees to reimburse the Letter of Credit Issuer promptly upon demand for its Pro Rata Share of any costs or expenses payable by the Borrowers to the Letter of Credit Issuer, to the extent that the Letter of Credit Issuer is not promptly reimbursed for such costs and expenses by the Borrowers. The agreement contained in this Section shall survive payment in full of all other Obligations.

12.17 Concerning the Collateral and the Related Loan Documents.

Each Lender authorizes and directs the Agent to enter into the other Loan Documents, for the ratable benefit and obligation of the Agent and the Lenders. Each Lender agrees that any action taken by the Agent, Majority Lenders or Required Lenders, as applicable, in accordance with the terms of this Agreement or the other Loan Documents, and the exercise by the Agent, the Majority Lenders, or the Required Lenders, as applicable, of their respective powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon all of the Lenders. The Lenders acknowledge that the Revolving Loans, Agent Advances, Non-Ratable Loans, Ex-Im Bank Revolving Loans, Bank Products and all interest, fees and expenses hereunder constitute one Debt, secured *pari passu* by all of the Collateral.

12.18 Field Audit and Examination Reports; Disclaimer by Lenders.

By signing this Agreement, each Lender:

(a) is deemed to have requested that the Agent furnish such Lender, promptly after it becomes available, a copy of each field audit or examination report (each a "Report" and collectively, "Reports") prepared by or on behalf of the Agent;

(b) expressly agrees and acknowledges that neither the Bank nor the Agent (i) makes any representation or warranty as to the accuracy of any Report, or (ii) shall be liable for any information contained in any Report;

(c) expressly agrees and acknowledges that the Reports are not comprehensive audits or examinations, that the Agent or the Bank or other party performing any audit or examination will inspect only specific information regarding the Borrowers and will rely significantly upon the Borrowers' books and records, as well as on representations of the Borrowers' personnel;

(d) agrees to keep all Reports confidential and strictly for its internal use, and not to distribute except to its participants, or use any Report in any other manner; and

(e) without limiting the generality of any other indemnification provision contained in this Agreement, agrees: (i) to hold the Agent and any such other Lender preparing a Report harmless from any action the indemnifying Lender may take or conclusion the indemnifying Lender may reach or draw from any Report in connection with any loans or other credit accommodations that the indemnifying Lender has made or may make to the Borrowers, or the indemnifying Lender's participation in, or the indemnifying Lender's purchase of, a loan or loans of the Borrowers; and (ii) to pay and protect, and indemnify, defend and hold the Agent and any such other Lender preparing a Report harmless from and against, the claims, actions, proceedings, damages, costs, expenses and other amounts (including Attorney Costs) incurred by the Agent and any such other Lender preparing a Report as the direct or indirect result of any third parties who might obtain all or part of any Report through the indemnifying Lender.

12.19 Relation Among Lenders.

The Lenders are not partners or co-venturers, and no Lender shall be liable for the acts or omissions of, or (except as otherwise set forth herein in case of the Agent) authorized to act for, any other Lender.

ARTICLE 13
LIABILITY OF BORROWERS

13.1 Concerning Joint and Several Liability of the Borrowers.

(a) Each of the Borrowers is accepting joint and several liability hereunder in consideration of the financial accommodation to be provided by the Lenders under this Agreement, for the mutual benefit, directly and indirectly, of each of the Borrowers and in consideration of the undertakings of each of the Borrowers to accept joint and several liability for the obligations of each of them.

(b) Each of the Borrowers jointly and severally hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with the other

Borrowers with respect to the payment and performance of all of the Obligations, it being the intention of the parties hereto that all the Obligations shall be the joint and several obligations of each of the Borrowers without preferences or distinction among them.

(c) If and to the extent that any of the Borrowers shall fail to make any payment with respect to any of the Obligations as and when due or to perform any of the Obligations in accordance with the terms thereof, then in each such event, the other Borrowers will make such payment with respect to, or perform, such Obligations.

(d) The obligations of each Borrower under the provisions of this Section 13.1 constitute full recourse obligations of such Borrower, enforceable against it to the full extent of its properties and assets, irrespective of the validity, regularity or enforceability of this Agreement or any other circumstances whatsoever.

(e) Except as otherwise expressly provided herein, each Borrower hereby waives notice of acceptance of its joint and several liability, notice of any Loan made under this Agreement, notice of occurrence of any Event of Default, or of any demand for any payment under this Agreement, notice of any action at any time taken or omitted by any Lender under or in respect of any of the Obligations, any requirement of diligence and, generally, all demands, notices and other formalities of every kind in connection with this Agreement. Each Borrower hereby assents to, and waives notice of, any extension or postponement of the time for the payment of any of the Obligations, the acceptance of any partial payment thereon, any waiver, consent or other action or acquiescence by any Lender at any time or times in respect of any default by any Borrower in the performance or satisfaction of any term, covenant, condition or provision of this Agreement, any and all other indulgences whatsoever by any Lender in respect of any of the Obligations, and the taking, addition, substitution or release, in whole or in part, at any time or times, of any security for any of the Obligations or in part, at any time or times, of any security for any of the Obligations or the addition, substitution or release, in whole or in part, of any Borrower. Without limiting the generality of the foregoing, each Borrower assents to any other action or delay in acting or failure to act on the part of any Lender, including, without limitation, any failure strictly or diligently to assert any right or to pursue any remedy or to comply fully with the applicable laws or regulations thereunder which might, but for the provisions of this Section 13.1, afford grounds for terminating, discharging or relieving such Borrower, in whole or in part, from any of its obligations under this Section 13.1, it being the intention of each Borrower that, so long as any of the Obligations remain unsatisfied, the obligations of such Borrower under this Section 13.1 shall not be discharged except by performance and then only to the extent of such performance. The Obligations of each Borrower under this Section 13.1 shall not be diminished or rendered unenforceable by any winding up, reorganization, arrangement, liquidation, reconstruction or similar proceeding with respect to any Borrower or any Lender. The joint and several liability of the Borrowers hereunder shall continue in full force and effect notwithstanding any absorption, merger, amalgamation or any other change whatsoever in the name, membership, constitution or place of formation of any Borrower or any Lender.

(f) The provisions of this Section 13.1 are made for the benefit of the Lenders and their respective successors and assigns, and may be enforced by any such Person from time to time against any of the Borrowers as often as occasion therefor may arise and without requirement on the part of any Lender first to marshal any of its claims or to exercise any of its rights against any of the other Borrowers or to exhaust any remedies available to it against any of the other Borrowers or to resort to any other source or means of obtaining

payment of any of the Obligations or to elect any other remedy. The provisions of this Section 13.1 shall remain in effect until all the Obligations shall have been paid in full or otherwise fully satisfied. If at any time, any payment, or any part thereof, made in respect of any of the Obligations, is rescinded or must otherwise be restored or returned by any Lender upon the insolvency, bankruptcy or reorganization of any of the Borrowers, or otherwise, the provisions of this Section 13.1 will forthwith be reinstated in effect, as though such payment had not been made.

(g) Notwithstanding any provision to the contrary contained herein or in any other of the Loan Documents, the obligations of each Borrower hereunder shall be limited to an aggregate amount equal to the largest amount that would not render its obligations hereunder subject to avoidance under section 548 of the Bankruptcy Code or any comparable provisions of any applicable state law.

(h) The Borrowers hereby agree, as among themselves, that if any Borrower shall become an Excess Funding Borrower (as defined below), each other Borrower shall, on demand of such Excess Funding Borrower (but subject to the next sentence hereof and to subsection (B) below), pay to such Excess Funding Borrower an amount equal to such Borrower's Pro Rata Share (as defined below and determined, for this purpose, without reference to the properties, assets, liabilities and debts of such Excess Funding Borrower) of such Excess Payment (as defined below). The payment obligation of any Borrower to any Excess Funding Borrower under this Section 13.1(h) shall be subordinate and subject in right of payment to the prior payment in full of the Obligations of such Borrower under the other provisions of this Agreement, and such Excess Funding Borrower shall not exercise any right or remedy with respect to such excess until payment and satisfaction in full of all of such Obligations. For purposes hereof, (i) "Excess Funding Borrower" shall mean, in respect of any Obligations arising under the other provisions of this Agreement (hereafter, the "Joint Obligations"), a Borrower that has paid an amount in excess of its Pro Rata Share of the Joint Obligations; (ii) "Excess Payment" shall mean, in respect of any Joint Obligations, the amount paid by an Excess Funding Borrower in excess of its Pro Rata Share of such Joint Obligations; and (iii) "Pro Rata Share", for the purposes of this Section 13.1(h), shall mean, for any Borrower, the ratio (expressed as a percentage) of (A) the amount by which the aggregate present fair salable value of all of its assets and properties exceeds the amount of all debts and liabilities of such Borrower (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of such Borrower hereunder) to (B) the amount by which the aggregate present fair salable value of all assets and other properties of such Borrower and all of the other Borrowers exceeds the amount of all of the debts and liabilities (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of such Borrower and the other Borrowers hereunder) of such Borrower and all of the other Borrowers, all as of the Closing Date (if any Borrower becomes a party hereto subsequent to the Closing Date, then for the purposes of this Section 13.1(h) such subsequent Borrower shall be deemed to have been a Borrower as of the Closing Date and the information pertaining to, and only pertaining to, such Borrower as of the date such Borrower became a Borrower shall be deemed true as of the Closing Date).

13.2 Agency of Parent for each other Borrower.

Each of the other Borrowers appoints Parent as its agent for all purposes relevant to this Agreement, including (without limitation) the giving and receipt of notices, the request for Revolving Loans and the execution and delivery of all documents, instruments and certificates contemplated herein and all modifications hereto. Any acknowledgment, consent, direction, certification

or other action which might otherwise be valid or effective only if given or taken by

all of the Borrowers acting singly or jointly, or both, shall be valid and effective if given or taken only by Parent, whether or not any of the other Borrowers joins therein.

ARTICLE 14
MISCELLANEOUS

14.1 No Waivers; Cumulative Remedies.

No failure by the Agent or any Lender to exercise any right, remedy, or option under this Agreement or any present or future supplement thereto, or in any other agreement between or among the Borrowers and the Agent and/or any Lender, or delay by the Agent or any Lender in exercising the same, will operate as a waiver thereof. No waiver by the Agent or any Lender will be effective unless it is in writing, and then only to the extent specifically stated. No waiver by the Agent or the Lenders on any occasion shall affect or diminish the Agent's and each Lender's rights thereafter to require strict performance by the Borrowers of any provision of this Agreement. The Agent and the Lenders may proceed directly to collect the Obligations without any prior recourse to the Collateral. The Agent's and each Lender's rights under this Agreement will be cumulative and not exclusive of any other right or remedy which the Agent or any Lender may have.

14.2 Severability.

The illegality or unenforceability of any provision of this Agreement or any Loan Document or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

14.3 Governing Law; Choice of Forum; Service of Process.

(a) THIS AGREEMENT SHALL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE PARTIES HERETO DETERMINED IN ACCORDANCE WITH THE INTERNAL LAWS (AS OPPOSED TO THE CONFLICT OF LAWS PROVISIONS PROVIDED THAT PERFECTION ISSUES WITH RESPECT TO ARTICLE 9 OF THE UCC MAY GIVE EFFECT TO APPLICABLE CHOICE OR CONFLICT OF LAW RULES SET FORTH IN ARTICLE 9 OF THE UCC) OF THE STATE OF NORTH CAROLINA; PROVIDED THAT THE AGENT AND THE LENDERS SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF NORTH CAROLINA OR OF THE UNITED STATES OF AMERICA LOCATED IN MECKLENBURG COUNTY, NORTH CAROLINA, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE BORROWERS, THE AGENT AND THE LENDERS CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF

THOSE COURTS. EACH OF THE BORROWERS, THE AGENT AND THE LENDERS IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. NOTWITHSTANDING THE FOREGOING: (1) THE AGENT AND THE LENDERS SHALL HAVE THE RIGHT TO BRING ANY ACTION OR PROCEEDING AGAINST THE BORROWERS OR THEIR PROPERTY IN THE COURTS OF ANY OTHER JURISDICTION THE AGENT OR THE LENDERS DEEM NECESSARY OR APPROPRIATE IN ORDER TO REALIZE

ON THE COLLATERAL OR OTHER SECURITY FOR THE OBLIGATIONS AND (2) EACH OF THE PARTIES HERETO ACKNOWLEDGES THAT ANY APPEALS FROM THE COURTS DESCRIBED IN THE IMMEDIATELY PRECEDING SENTENCE MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE THOSE JURISDICTIONS.

(c) THE BORROWERS HEREBY WAIVE PERSONAL SERVICE OF ANY AND ALL PROCESS UPON IT AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE BY REGISTERED MAIL (RETURN RECEIPT REQUESTED) DIRECTED TO THE BORROWERS AT ITS ADDRESS SET FORTH IN SECTION 14.8 AND SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED FIVE (5) BUSINESS DAYS AFTER THE SAME SHALL HAVE BEEN SO DEPOSITED IN THE U.S. MAILED POSTAGE PREPAID. NOTHING CONTAINED HEREIN SHALL AFFECT THE RIGHT OF AGENT OR THE LENDERS TO SERVE LEGAL PROCESS BY ANY OTHER MANNER PERMITTED BY LAW.

14.4 WAIVER OF JURY TRIAL.

THE BORROWERS, THE LENDERS AND THE AGENT EACH IRREVOCABLY WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR ANY AGENT-RELATED PERSON, PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. THE BORROWERS, THE LENDERS AND THE AGENT EACH AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY

SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

14.5 Survival of Representations and Warranties.

All of the Borrowers' representations and warranties contained in this Agreement shall survive the execution, delivery, and acceptance thereof by the parties, notwithstanding any investigation by the Agent or the Lenders or their respective agents.

14.6 Other Security and Guaranties.

The Agent, may, without notice or demand and without affecting the Borrowers' obligations hereunder, from time to time: (a) accept from any Person and hold collateral (other than the Collateral) for the payment of all or any part of the Obligations and exchange, enforce or release such collateral or any part thereof; and (b) accept and hold any endorsement or guaranty of payment of all or any part of the Obligations and release or substitute any such endorser or guarantor, or any Person who has given any Lien in any other collateral as security for the payment of all or any part of the Obligations, or any other Person in any way obligated to pay all or any part of the Obligations.

14.7 Fees and Expenses.

The Borrowers agree to pay to the Agent, for its benefit, on demand, all costs and expenses that Agent pays or incurs in connection with the negotiation, preparation, syndication, consummation, administration, enforcement, and termination of this Agreement or any of the other Loan Documents, including: (a) Attorney Costs; (b) costs and expenses (including outside attorneys' and paralegals' fees and disbursements) for any amendment, supplement, waiver, consent, or subsequent closing in connection with the Loan Documents and the transactions contemplated thereby; (c) costs and expenses of lien searches; (d) taxes, fees and other charges for filing financing statements and continuations, and other actions to perfect, protect, and continue the

Agent's Liens (including costs and expenses paid or incurred by the Agent in connection with the consummation of Agreement); (e) sums paid or incurred to pay any amount or take any action required of the Borrowers under the Loan Documents that the Borrowers fail to pay or take; (f) costs of appraisals, inspections, and verifications of the Collateral, including travel, lodging, and meals for inspections of the Collateral and the Borrowers' operations by the Agent plus the Agent's then customary charge for field examinations and audits and the preparation of reports thereof (such charge is currently \$750 per day (or portion thereof) for each Person retained or employed by the Agent with respect to each field examination or audit); (g) costs and expenses of forwarding loan proceeds, collecting checks and other items of payment, and establishing and maintaining Payment Accounts and lock boxes, and costs and expenses of preserving and protecting the Collateral and (h) (i) so long as no Default or Event of Default exists, costs and expenses of no more than two inventory appraisals per calendar year, such appraisals to be conducted by an appraisal firm satisfactory to the Agent and at any reasonable time selected by the Agent and (ii) during the existence of a Default or an Event of Default, costs and expenses of all inventory appraisals requested by the Agent, such appraisals to be conducted by an appraisal firm satisfactory to the Agent and at any reasonable time selected

by the Agent. In addition, the Borrowers agree to pay costs and expenses incurred by the Agent (including Attorneys' Costs) to the Agent, for its benefit, on demand, and to the other Lenders for their benefit, on demand, and all reasonable fees, expenses and disbursements incurred by such other Lenders for one law firm retained by such other Lenders, in each case, paid or incurred to obtain payment of the Obligations, enforce the Agent's Liens, sell or otherwise realize upon the Collateral, and otherwise enforce the provisions of the Loan Documents, or to defend any claims made or threatened against the Agent or any Lender arising out of the transactions contemplated hereby (including preparations for and consultations concerning any such matters). The foregoing shall not be construed to limit any other provisions of the Loan Documents regarding costs and expenses to be paid by the Borrowers. All of the foregoing costs and expenses shall be charged to the Borrowers' Loan Account as Revolving Loans as described in Section 3.7.

14.8 Notices.

Except as otherwise provided herein, all notices, demands and requests that any party is required or elects to give to any other shall be in writing, or by a telecommunications device capable of creating a written record, and any such notice shall become effective (a) upon personal delivery thereof, including, but not limited to, delivery by overnight mail and courier service, (b) five (5) Business Days after it shall have been mailed by United States mail, first class, certified or registered, with postage prepaid, or (c) in the case of notice by such a telecommunications device, when properly transmitted, in each case addressed to the party to be notified as follows:

If to the Agent or to the Bank:

Bank of America, N.A.
600 Peachtree Street N.E., 5th Floor
Atlanta, Georgia 30308
Attention: Business Credit-Account Executive
Telecopy No.: (404) 607-6437

with copies to:

Bank of America, N.A.
FL7-950-15-13
100 S.E. 2nd Street, 15th Floor
Miami, Florida 33131-2100
Telecopy No.: (800) 380-8118

If to the Borrowers:

Unifi, Inc.
7201 West Friendly Avenue
Greensboro, North Carolina 27410
Attn: Willis C. Moore III
Telephone: (336) 316-5664
Telecopy: (336) 294-4751

with a copy to:

Unifi, Inc.
7201 West Friendly Avenue
Greensboro, North Carolina 27410
Attn: Charles McCoy

or to such other address as each party may designate for itself by like notice. Failure or delay in delivering copies of any notice, demand, request, consent, approval, declaration or other communication to the persons designated above to receive copies shall not adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration or other communication.

14.9 Waiver of Notices.

Unless otherwise expressly provided herein, the Borrowers waive presentment, and notice of demand or dishonor and protest as to any instrument, notice of intent to accelerate the Obligations and notice of acceleration of the Obligations, as well as any and all other notices to which it might otherwise be entitled. No notice to or demand on the Borrowers which the Agent or any Lender may elect to give shall entitle the Borrowers to any or further notice or demand in the same, similar or other circumstances.

14.10 Binding Effect.

The provisions of this Agreement shall be binding upon and inure to the benefit of the respective representatives, successors, and assigns of the parties hereto; provided, however, that no interest herein may be assigned by any Borrower without prior written consent of the Agent and each Lender. The rights and benefits of the Agent and the Lenders hereunder shall, if such Persons so agree, inure to any party acquiring any interest in the Obligations or any part thereof.

14.11 Indemnity of the Agent and the Lenders by the Borrowers.

(a) The Borrowers agree to defend, indemnify and hold the Agent-Related Persons, and each Lender and each of its respective officers, directors, employees, counsel, representatives, agents and attorneys-in-fact (each, an "Indemnified Person") harmless from and against any and all liabilities, obligations, losses, damages, penalties,

actions, judgments, suits, costs, charges, expenses and disbursements (including Attorney Costs) of any kind or nature whatsoever which may at any time (including at any time following repayment of the Loans and the termination, resignation or replacement of the Agent or replacement of any Lender) be imposed on, incurred by or asserted against any such Person in any way relating to or arising out of this Agreement or any document contemplated by or referred to herein, or the transactions contemplated hereby, or any action taken or omitted by any such Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any Insolvency Proceeding or appellate proceeding) related to or arising out of this Agreement, any other Loan Document, or the Loans or the use

of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"); provided, that the Borrowers shall have no obligation hereunder to any Indemnified Person with respect to Indemnified Liabilities resulting solely from the willful misconduct of such Indemnified Person. The agreements in this Section shall survive payment of all other Obligations.

(b) The Borrowers agree to indemnify, defend and hold harmless the Agent and the Lenders from any loss or liability directly or indirectly arising out of the use, generation, manufacture, production, storage, release, threatened release, discharge, disposal or presence of a hazardous substance relating to the Borrowers' operations, business or property. This indemnity will apply whether the hazardous substance is on, under or about the property or operations of any Borrower or property leased to any Borrower. The indemnity includes but is not limited to Attorneys Costs. The indemnity extends to the Agent and the Lenders, their parents, affiliates, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys and assigns. "Hazardous substances" means any substance, material or waste that is or becomes designated or regulated as "toxic," "hazardous," "pollutant," or "contaminant" or a similar designation or regulation under any federal, state or local law (whether under common law, statute, regulation or otherwise) or judicial or administrative interpretation of such, including petroleum or natural gas. This indemnity will survive repayment of all other Obligations.

14.12 Limitation of Liability.

NO CLAIM MAY BE MADE BY ANY BORROWER, ANY LENDER OR OTHER PERSON AGAINST THE AGENT, ANY LENDER, OR THE AFFILIATES, DIRECTORS, OFFICERS, EMPLOYEES, COUNSEL, REPRESENTATIVES, AGENTS OR ATTORNEYS-IN-FACT OF ANY OF THEM FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES IN RESPECT OF ANY CLAIM FOR BREACH OF CONTRACT OR ANY OTHER THEORY OF LIABILITY ARISING OUT OF OR RELATED TO THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR ANY ACT, OMISSION OR EVENT OCCURRING IN CONNECTION THEREWITH, AND EACH BORROWER AND EACH LENDER HEREBY WAIVE, RELEASE AND AGREE NOT TO SUE UPON ANY CLAIM FOR SUCH DAMAGES, WHETHER OR NOT ACCRUED AND WHETHER OR NOT KNOWN OR SUSPECTED TO EXIST IN ITS FAVOR.

14.13 Final Agreement.

This Agreement and the other Loan Documents are intended by the Borrowers, the Agent and the Lenders to be the final, complete, and exclusive expression of the agreement between them. This Agreement supersedes any and all prior oral or written agreements relating to the subject matter hereof except for the Fee Letter and the Commitment Letter, among the Borrowers and the Agent. No modification, rescission, waiver, release, or amendment of any provision of this Agreement or any other Loan Document shall be made, except by a written agreement signed by the Borrowers and a duly authorized officer of each of the Agent and the requisite Lenders.

14.14 Counterparts.

This Agreement may be executed in any number of counterparts, and by the Agent, each Lender and the Borrowers in separate counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

14.15 Captions.

The captions contained in this Agreement are for convenience of

reference only, are without substantive meaning and should not be construed to modify, enlarge, or restrict any provision.

14.16 Right of Setoff.

In addition to any rights and remedies of the Lenders provided by law, if an Event of Default exists or the Loans have been accelerated, each Lender is authorized at any time and from time to time, without prior notice to the Borrowers, any such notice being waived by the Borrowers to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, such Lender or any Affiliate of such Lender to or for the credit or the account of the Borrowers against any and all Obligations owing to such Lender, now or hereafter existing, irrespective of whether or not the Agent or such Lender shall have made demand under this Agreement or any Loan Document and although such Obligations may be contingent or unmatured. Each Lender agrees promptly to notify the Borrowers and the Agent after any such set-off and application made by such Lender; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application. NOTWITHSTANDING THE FOREGOING, NO LENDER SHALL EXERCISE ANY RIGHT OF SET-OFF, BANKER'S LIEN, OR THE LIKE AGAINST ANY DEPOSIT ACCOUNT OR PROPERTY OF THE BORROWERS HELD OR MAINTAINED BY SUCH LENDER WITHOUT THE PRIOR WRITTEN UNANIMOUS CONSENT OF THE LENDERS.

14.17 Confidentiality.

(a) The Borrowers hereby agrees that the Agent and each Lender, upon the prior consent of the Borrowers (such consent not to be unreasonably withheld), may issue and disseminate to the public general information describing the credit accommodation entered into pursuant to this Agreement, including the name and address of the Borrowers and a general description of the Borrowers' business and may use any Borrower's name in advertising and other promotional material.

(b) Each Lender severally agrees to take normal and reasonable precautions and exercise due care to maintain the confidentiality of all information identified as "confidential" or "secret" by the Borrowers and provided to the Agent or such Lender by or on behalf of the Borrowers, under this Agreement or any other Loan Document, except to the extent that such information (i) was or becomes generally available to the public other than as a result of disclosure by the Agent or such Lender, or (ii) was or becomes available on a nonconfidential basis from a source other than the Borrowers, provided that such source is not bound by a confidentiality agreement with the Borrowers known to the Agent or such Lender; provided, however, that the Agent and any Lender may, upon prior written notice to the Borrowers (to the extent not prohibited by applicable law), disclose such information (1) at the request or pursuant to any requirement of any Governmental Authority to which the Agent or such Lender is subject or in connection with an examination of the Agent or such Lender by any such Governmental Authority; (2) pursuant to subpoena or other court process; (3) when required to do so in accordance with the provisions of any applicable Requirement of Law; (4) to the extent reasonably required in connection with any litigation or proceeding (including, but not limited to, any bankruptcy proceeding) to which the Agent, any Lender or their respective Affiliates may be party; (5) to the extent reasonably required in connection with the exercise of any remedy hereunder or under any other Loan Document; (6) to the Agent's or such Lender's independent auditors, accountants, attorneys and other professional advisors; (7) to any prospective Participant or Assignee under any Assignment and Acceptance, actual or potential, provided that such prospective Participant or Assignee agrees to keep such information confidential to the same extent required of the Agent and the Lenders hereunder; (8) as expressly permitted under the terms of

any other document or agreement regarding confidentiality to which the Borrowers are party or are deemed party with the Agent or such Lender, and (9) to its Affiliates.

14.18 Conflicts with Other Loan Documents.

Unless otherwise expressly provided in this Agreement (or in another Loan Document by specific reference to the applicable provision contained in this Agreement), if any provision contained in this Agreement conflicts with any provision of any other Loan Document, the provision contained in this Agreement shall govern and control.

14.19 Accounting Terms.

Any accounting term used in the Agreement shall have, unless otherwise specifically provided herein, the meaning customarily given in accordance with GAAP, and all financial computations in the Agreement shall be computed, unless otherwise specifically provided

therein, in accordance with GAAP as consistently applied and using the same method for inventory valuation as used in the preparation of the Financial Statements.

14.20 Interpretive Provisions.

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) The words "hereof," "herein," "hereunder" and similar words refer to the Agreement as a whole and not to any particular provision of the Agreement; and Subsection, Section, Schedule and Exhibit references are to the Agreement unless otherwise specified.

(c) (i) The term "documents" includes any and all instruments, documents, agreements, certificates, indentures, notices and other writings, however evidenced.

(ii) The term "including" is not limiting and means "including without limitation."

(iii) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including," the words "to" and "until" each mean "to but excluding" and the word "through" means "to and including."

(iv) The word "or" is not exclusive.

(d) Unless otherwise expressly provided herein, (i) references to agreements (including the Agreement) and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting the statute or regulation.

(e) The captions and headings of the Agreement and other Loan Documents are for convenience of reference only and shall not affect the interpretation of the Agreement.

(f) The Agreement and other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are

cumulative and shall each be performed in accordance with their terms.

(g) For purposes of Section 9.1, a breach of a financial covenant contained in Sections 7.22-7.24 shall be deemed to have occurred as of any date of determination of

such breach or upon the date that such breach is first known by any Borrower or the Agent, regardless of when the Financial Statements reflecting such breach are delivered to the Agent.

(h) The Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Agent, the Borrowers and the other parties, and are the products of all parties. Accordingly, they shall not be construed against the Lenders or the Agent merely because of the Agent's or Lenders' involvement in their preparation.

IN WITNESS WHEREOF, the parties have entered into this Agreement on 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

"AGENT"

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

By: DAVID M. ANDERSON

Name: DAVID M. ANDERSON
Title: SVP

"LENDERS"

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

By: DAVID M. ANDERSON

Name: DAVID M. ANDERSON
Title: SVP

ANNEX A
to
Credit Agreement

Definitions

Capitalized terms used in the Loan Documents shall have the following respective meanings (unless otherwise defined therein), and all section references in the following definitions shall refer to sections of the Agreement:

"Accounts" means all of the Borrowers' now owned or hereafter acquired or arising accounts, as defined in the UCC, including any rights to payment for the sale or lease of goods or rendition of services, whether or not they have been earned by performance.

"Account Debtor" means each Person obligated in any way on or in connection with an Account, Chattel Paper or General Intangibles (including a payment intangible).

"Account Designation Letter" means a notice of account designation dated the Closing Date designating the Designated Account.

"ACH Transactions" means any cash management or related services including the automatic clearing house transfer of funds by the Bank for the account of the Borrowers pursuant to agreement or overdrafts.

"Adjusted Net Earnings from Operations" means, with respect to any fiscal period of the Parent, net income of the Parent and its Domestic Subsidiaries on a consolidated basis after provision for income taxes for such fiscal period, as determined in accordance with GAAP and reported on the Financial Statements for such period, excluding any and all of the following included in such net income: (a) gain or loss arising from the sale of any capital assets; (b) gain arising from any write-up in the book value of any asset; (c) earnings of any Person, substantially all the assets of which have been acquired by the Parent or any of its Domestic Subsidiaries in any manner, to the extent realized by such other Person prior to the date of acquisition; (d) earnings of any Person in which the Parent or any of its Domestic Subsidiaries has an ownership interest unless (and only to the extent) such earnings shall actually have been received by the Parent or any of its Domestic Subsidiary in the form of cash distributions; (e) earnings of any Person who is not a Borrower to which assets of the Parent or any of its Domestic Subsidiaries shall have been sold, transferred or disposed of, or into which the Parent or any of its Domestic Subsidiaries shall have been merged, or which has been a party with the Parent or any of its Domestic Subsidiaries to any consolidation or other form of reorganization, prior to the date of such transaction; (f) gain arising from the acquisition of debt or equity securities of the Parent or any of its Domestic Subsidiaries or from cancellation or forgiveness of Debt; and (g) non-cash gain or loss arising from extraordinary items, as determined in accordance with GAAP.

"Affiliate" means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person or which owns,

directly or indirectly, ten percent (10%) or more of the outstanding equity interest of such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, by contract, or otherwise.

"Agent" means the Bank, solely in its capacity as agent for the Lenders, and any successor agent.

"Agent Advances" has the meaning specified in Section 1.2(i).

"Agent Fees" has the meaning specified in Section 2.4.

"Agent's Liens" means the Liens in the Collateral granted to the Agent, for the benefit of the Lenders, Bank, and Agent pursuant to this Agreement and the other Loan Documents.

"Agent-Related Persons" means the Agent, together with its Affiliates, and the officers, directors, employees, counsel, representatives, agents and attorneys-in-fact of the Agent and such Affiliates.

"Aggregate Revolver Outstandings" means, at any date of determination: the sum of (a) the unpaid balance of Revolving Loans, (b) the aggregate amount of Pending Revolving Loans, (c) one hundred percent (100%) of the aggregate undrawn face amount of all outstanding Letters of Credit, and (d) the aggregate amount of any unpaid reimbursement obligations in respect of Letters of Credit.

"Agreement" means the Credit Agreement to which this Annex A is attached, as from time to time amended, modified or restated.

"Anniversary Date" means each anniversary of the Closing Date.

"Applicable Margin" means

(i) with respect to Base Rate Revolving Loans and all other Obligations (other than LIBOR Rate Loans), 1.0%;

(ii) with respect to LIBOR Revolving Loans, 2.5%; and

The Applicable Margins shall be adjusted (up or down) prospectively on a quarterly basis as determined by the Borrowers' consolidated financial performance, commencing with the first day of the first calendar month that occurs more than 5 days after delivery of the Borrowers' quarterly Financial Statements to Lenders for the fiscal quarter ending December 22, 2002. Adjustments in Applicable Margins shall be determined by reference to the following grids:

If Leverage Ratio is:	Level of Applicable Margins: -----
less than 1.50	Level I
greater than or equal to 1.50, but less than 2.25	Level II
greater than or equal to 2.25, but less than 3.00	Level III
greater than or equal to 3.00, but less than 3.75	Level IV
greater than or equal to 3.75, but less than 4.50	Level V
greater than or equal to 4.50	Level VI

Low to High

	Applicable Margins -----					
	Level I	Level II	Level III	Level IV	Level V	Level VI
	-----	-----	-----	-----	-----	-----
Base Rate Revolving Loans	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%
LIBOR Revolving Loans	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%
Applicable L/C Margin	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%

All adjustments in the Applicable Margins after December 22, 2002 shall be implemented quarterly on a prospective basis, for each calendar month commencing at least 5 days after the date of delivery to the Lenders of quarterly unaudited or annual audited (as applicable) Financial Statements evidencing the need for an adjustment. Concurrently with the delivery of those Financial Statements, the Parent shall deliver to the Agent and the Lenders a certificate, signed by its chief financial officer, setting forth in reasonable detail the basis for the continuance of, or any change in, the Applicable Margins. Failure to timely deliver such Financial Statements shall, in addition to any other remedy provided for in this Agreement, result in an increase in the Applicable Margins to the highest level set forth in the foregoing grid, until the first day of the first calendar month following the delivery of those Financial Statements demonstrating that such an increase is not required. If a Default or Event of Default has occurred and is continuing at the time any reduction in the Applicable Margins is to be implemented, no reduction may occur

until the first day of the first calendar month following the date on which such Default or Event of Default is waived or cured.

"Assigned Contracts" means, collectively, all of the Borrowers' rights and remedies under, and all moneys and claims for money due or to become due to the Borrowers under those contracts set forth on Schedule 1.1, and any other material contracts, and any and all amendments, supplements, extensions, and renewals thereof including all rights and claims of the Borrowers now or hereafter existing: (i) under any insurance, indemnities, warranties, and guarantees provided for or arising out of or in connection with any of the foregoing agreements; (ii) for any damages arising out of or for breach or default under or in connection with any of the foregoing contracts; (iii) to all other amounts from time to time paid or payable under or in connection with any of the foregoing agreements; or (iv) to exercise or enforce any and all covenants, remedies, powers and privileges thereunder.

"Assignee" has the meaning specified in Section 11.2(a).

"Assignment and Acceptance" has the meaning specified in Section 11.2(a).

"Attorney Costs" means and includes all reasonable fees, expenses and disbursements of any law firm or other counsel engaged by the Agent or, to the extent provided in the Agreement, by the Lenders.

"Availability" means, at any time (a) the lesser of (i) the Maximum Revolver Amount or (ii) the Borrowing Base, minus (b) the Aggregate Revolver Outstandings.

"Bank" means Bank of America, N.A., a national banking association, or any successor entity thereto.

"Bank Products" means any one or more of the following types of services or facilities extended to the Borrowers by any Lender or any affiliate of a Lender in reliance on such Lender's agreement to indemnify such affiliate: (i) ACH Transactions; (ii) cash management, including controlled disbursement services; and (iii) Hedge Agreements.

"Bank Product Reserves" means all reserves which the Agent from time to time establishes in its reasonable discretion for the Bank Products then provided or outstanding.

"Bankruptcy Code" means Title 11 of the United States Code (11 U.S.C.ss. 101 et seq.).

"Base Rate" means, for any day, the rate of interest in effect for such day as publicly announced from time to time by the Bank in Charlotte, North Carolina as its "prime rate" (the "prime rate" being a rate set by the Bank based upon various factors including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate). Any change in the prime rate announced by the Bank shall take effect at the opening of business on the day specified in the public announcement of such change. Each Interest Rate based upon the Base Rate shall be adjusted simultaneously with any change in the Base Rate.

"Base Rate Loans" means the Base Rate Revolving Loans.

"Base Rate Revolving Loan" means a Revolving Loan during any period in which it bears interest based on the Base Rate.

"Blocked Account Agreement" means an agreement among the Borrowers, the Agent and a Clearing Bank, in form and substance reasonably satisfactory to the Agent, concerning the collection of payments which represent the proceeds of Accounts or of any other Collateral.

"Borrowers' Ex-Im Agreement" means the Export-Import Bank of the United States Working Capital Guarantee Program Borrower Agreement entered into after the Closing Date by the Borrowers in favor of the Ex-Im Bank and the Agent relating to Ex-Im Bank Guaranteed Loans.

"Borrowing" means a borrowing hereunder consisting of Revolving Loans made on the same day by the Lenders to any Borrower or by Bank in the case of a Borrowing funded by Ex-Im Bank Revolving Loans, Non-Ratable Loans or by the Agent in the case of a Borrowing consisting of an Agent Advance, or the issuance of Letters of Credit hereunder.

"Borrowing Base" means, at any time, an amount equal to

(a) the sum of:

(i) ninety percent (90%) of the Eligible Factoring Credit Balances; plus

(ii) eighty-five percent (85%) of the Net Amount of Eligible Accounts; plus

(iii) the lesser of (a) \$10,000,000 or (b) eighty percent (80%) of the Net Amount of Eligible Foreign Accounts; plus

(iv) the lesser of (a) sixty percent (60%) of the value of Eligible Inventory or (b) eighty percent (80%) of the Net Orderly Liquidation Value of Eligible Inventory; plus

(v) the lesser of (a) \$10,000,000 or (b) ninety percent (90%) of the Eligible Export-Related Accounts Receivable Value with respect only to Ex-Im Bank Revolving Loans, subject to the availability that exists pursuant to the terms of Borrowers' Ex-Im Agreement under the Export-Related Borrowing Base (as that term is defined in the Borrowers' Ex-Im Agreement); minus

(b) Reserves from time to time established by the Agent in its reasonable credit judgment;

provided that the aggregate Revolving Loans advanced against Eligible Inventory shall not exceed the Maximum Inventory Loan Amount; provided, further, that any and all items of Collateral acquired pursuant to a Permitted Acquisition shall not be included in the Borrowing Base until such time as the Agent shall have had the opportunity to conduct a field exam and/or an appraisal of such Collateral with results satisfactory to the Agent.

"Borrowing Base Certificate" means a certificate by a Responsible Officer of the Parent, substantially in the form of Exhibit B (or another form acceptable to the Agent) setting forth the calculation of the Borrowing Base, including a calculation of each component thereof, all in such detail as shall be reasonably satisfactory to the Agent. All calculations of the Borrowing Base in connection with the preparation of any Borrowing Base Certificate shall originally be made by the Parent and certified to the Agent; provided, that the Agent shall have the right to review and adjust, in the exercise of its reasonable credit judgment, any such calculation (1) to reflect its reasonable estimate of declines in value of any of the Collateral described therein, and (2) to the extent that such calculation is not in accordance with this Agreement.

"Business Day" means (a) any day that is not a Saturday, Sunday, or a day on which banks in Charlotte, North Carolina are required or permitted to be closed, and (b) with respect to all notices, determinations, fundings and

payments in connection with the LIBOR Rate or LIBOR Rate Loans, any day that is a Business Day pursuant to clause (a) above and that is also a day on which trading in Dollars is carried on by and between banks in the London interbank market.

"Capital Adequacy Regulation" means any guideline, request or directive of any central bank or other Governmental Authority, or any other law, rule or regulation, whether or not having the force of law, in each case, regarding capital adequacy of any bank or of any corporation controlling a bank.

"Capital Expenditures" means, for any period, all capital expenditures of the Borrowers on a consolidated basis for such period, as determined in accordance with GAAP.

"Capital Lease" means any lease of property by any Borrower which, in accordance with GAAP, should be reflected as a capital lease on the balance sheet of such Borrower.

"Capital Stock" means (i) in the case of a corporation, capital stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, membership interests and (v) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Change of Control" means the occurrence of any of the following events: (i) any Person or two or more Persons acting in concert shall have acquired "beneficial ownership," directly or indirectly, of, or shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement that, upon consummation, will result in its or their acquisition of, control over, Voting Stock of the Parent (or other securities convertible into such Voting Stock) representing 25% or more of the combined voting power of all Voting Stock of the Parent, or (ii) during any period of up to 24 consecutive months, commencing after the Closing Date, individuals who at the beginning of such 24 month period were directors of the Parent (together with any new director whose election by the Parent's Board of Directors or whose nomination for election by the Parent's shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors of the Parent then in office. As used herein, "beneficial ownership" shall have the meaning provided in Rule 13d-3 of the Securities and Exchange Commission under the Securities Act of 1934.

"Chattel Paper" means all of the Borrowers' now owned or hereafter acquired chattel paper, as defined in the UCC, including electronic chattel paper.

"Clearing Bank" means the Bank or any other banking institution with whom a Payment Account has been established pursuant to a Blocked Account Agreement.

"Closing Date" means the date of this Agreement.

"Code" means the Internal Revenue Code of 1986.

"Collateral" means all of the Borrowers' real and personal property, (other than (i) any manufacturing facility owned by any Borrower and any manufacturing equipment owned by a Borrower and located in such facility, but excluding office equipment, rolling stock and other equipment not directly used in the production of such Borrower's products, (ii) any shares of stock owned by the Parent or any of its Subsidiaries in a Restricted Subsidiary (as defined in the Indenture) or (iii) indebtedness of a Restricted Subsidiary (as defined in the Indenture)) and all other assets of any Person from time to time subject to

Agent's Liens securing payment or performance of the Obligations.

"Commitment" means, at any time with respect to a Lender, the principal amount set forth beside such Lender's name under the heading "Commitment" on Schedule 1.2 attached to the Agreement or on the signature page of the Assignment and Acceptance pursuant to which such Lender became a Lender hereunder in accordance with the provisions of Section 11.2, as such Commitment may be adjusted from time to time in accordance with the provisions of Section 3.2 and Section 11.2, and "Commitments" means, collectively, the aggregate amount of the commitments of all of the Lenders.

"Commitment Letter" means that certain commitment letter dated December 4, 2001 between Bank of America, N.A. and Unifi, Inc.

"Contaminant" means any waste, pollutant, hazardous substance, toxic substance, hazardous waste, special waste, petroleum or petroleum-derived substance or waste, asbestos in any form or condition, polychlorinated biphenyls ("PCBs"), or any constituent of any such substance or waste.

"Continuation/Conversion Date" means the date on which a Loan is converted into or continued as a LIBOR Rate Loan.

"Corporate Headquarters" means the corporate headquarters of the Borrowers located at 7201 West Friendly Avenue, Greensboro, North Carolina 27410.

"Credit Support" has the meaning specified in Section 1.3(a).

"Debt" means, as to any Person and whether recourse is secured by or is otherwise available against all or only a portion of the assets of such Person and whether or not contingent, but without duplication:

(a) every obligation of such Person for money borrowed;

(b) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses;

(c) every reimbursement obligation of such Person with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of such Person;

(d) every obligation of such Person issued or assumed as the deferred purchase price of property or services including securities repurchase agreements but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business which are not overdue or which are being contested in good faith;

(e) every obligation of such Person under any Capital Lease;

(f) every obligation of such Person under any Synthetic Lease;

(g) every obligation of such Person (an "equity related purchase obligation") to purchase, redeem, retire or otherwise acquire for value any shares of capital stock of any class issued by such Person, any warrants, options or other rights to acquire any such shares, or any rights measured by the value of such shares, warrants, options or other rights;

(h) Derivative Obligations of such Person;

(i) every obligation in respect of Debt of any other entity (including any partnership in which such Person is a general partner) to the extent that such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent that the terms of such Debt provide that such Person is not liable therefor and such terms are enforceable under applicable law;

(j) every obligation, contingent or otherwise, of such Person guarantying, or having the economic effect of guarantying or otherwise acting as surety for, any obligation of a type described in any of clauses (a) through (i) (the "primary obligation") of another Person (the "primary obligor"), in any manner, whether directly or indirectly, and including, without limitation, any obligation of such Person (i) to purchase or pay (or advance or supply funds for the purchase of) any security for the payment of such primary obligation, (ii) to purchase property, securities or services for the purpose of assuring the payment of such primary obligation, or (iii) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such primary obligation.

The "amount" or "principal amount" of any Debt at any time of determination represented by (A) any Debt, issued at a price that is less than the principal amount at maturity thereof, shall be the amount of the liability in respect thereof determined in accordance with GAAP, (B) any Capital Lease shall be the principal component of the aggregate of the rentals obligation under such Capital Lease payable over the term thereof that is not subject to termination by the lessee, and (C) any equity related purchase obligation shall be the maximum fixed redemption or purchase price thereof inclusive of any accrued and unpaid dividends to be comprised in such redemption or purchase price.

"Default" means any event or circumstance which, with the giving of notice, the lapse of time, or both, would (if not cured, waived, or otherwise remedied during such time) constitute an Event of Default.

"Default Rate" means a fluctuating per annum interest rate at all times equal to the sum of (a) the otherwise applicable Interest Rate plus (b) two percent (2%) per annum. Each Default Rate shall be adjusted simultaneously with any change in the applicable Interest Rate. In addition, the Default Rate shall result in an increase in the Letter of Credit Fee by two (2) percentage points per annum.

"Defaulting Lender" has the meaning specified in Section 12.15(c).

"Deposit Accounts" means all "deposit accounts" as such term is defined in the UCC, now or hereafter held in the name of any Borrower.

"Derivative Obligations" means the net obligations of a Person under any Hedge Agreement.

"Designated Account" has the meaning specified in Section 1.2(c).

"Distribution" means, in respect of any corporation: (a) the payment or making of any dividend or other distribution of property in respect of capital stock (or any options or warrants for, or other rights with respect to, such stock) of such corporation, other than distributions in capital stock (or any options or warrants for such stock) of the same class; or (b) the redemption or other acquisition by such corporation of any capital stock (or any options or warrants for such stock) of such corporation.

"Documents" means all documents as such term is defined in the UCC, including bills of lading, warehouse receipts or other documents of title, now owned or hereafter acquired by the Borrowers.

"DOL" means the United States Department of Labor or any successor department or agency.

"Dollar" and "\$" means dollars in the lawful currency of the United States. Unless otherwise specified, all payments under the Agreements shall be made in Dollars.

"Domestic Subsidiary" means any Subsidiary of the Parent other than a Foreign Subsidiary.

"EBITDA" means, with respect to any fiscal period of the Parent and its Domestic Subsidiaries, on a consolidated basis, Adjusted Net Earnings from Operations, plus, to the extent deducted in the determination of Adjusted Net Earnings from Operations for that fiscal period, interest expenses, Federal, state, local and foreign income taxes, depreciation, amortization and other non-cash charges (excluding the effect of non-cash income or loss from any Person in which the Parent or any of its Domestic Subsidiaries has an ownership interest). Unless otherwise specified herein, the applicable period of computation shall be for the four (4) consecutive fiscal quarters ending as of the date of determination.

"Eligible Accounts" means the Accounts which the Agent in the exercise of its reasonable commercial discretion determines to be Eligible Accounts. Without limiting the discretion of the Agent to establish other criteria of ineligibility, Eligible Accounts shall not, unless the Agent in its sole discretion elects, include any Account:

(a) with respect to which more than 90 days (or, with the prior consent of the Agent, 120 days) have elapsed since the date of the original invoice therefor or which is more than 60 days past due;

(b) with respect to which any of the representations, warranties, covenants, and agreements contained in the Security Agreement are incorrect or have been breached;

(c) with respect to which Account (or any other Account due from such Account Debtor), in whole or in part, a check, promissory note, draft, trade acceptance or other instrument for the payment of money has been received, presented for payment and returned uncollected for any reason;

(d) which represents a progress billing (as hereinafter defined) or as to which a Borrower has extended the time for payment without the consent of the Agent; for the purposes hereof, "progress billing" means any invoice for goods sold or leased or services rendered under a contract or agreement pursuant to which the Account Debtor's obligation to pay such invoice is conditioned upon a Borrower's completion of any further performance under the contract or agreement;

(e) with respect to which any one or more of the following events has occurred to the Account Debtor on such Account: death or judicial declaration of incompetency of an Account Debtor who is an individual; the filing by or against the Account Debtor of a request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as a bankrupt, winding-up, or other relief under the bankruptcy, insolvency, or similar laws of the United States, any state or territory thereof, or any foreign jurisdiction, now or hereafter in effect; the making of any general assignment by the Account Debtor for the benefit of creditors; the appointment of a receiver or trustee for the Account Debtor or for any of the assets of the Account Debtor, including, without limitation, the appointment of or taking possession by a "custodian," as defined in the Federal Bankruptcy Code; the institution by or against the Account Debtor of any other type of insolvency proceeding (under the bankruptcy laws of the United States or otherwise) or of any formal or informal proceeding for the dissolution or liquidation of, settlement of claims against, or winding up of affairs of, the Account Debtor; the sale, assignment, or transfer of all or any material part of the assets of the Account Debtor; the nonpayment generally by the Account Debtor of its debts as they become due; or the cessation of the business of the Account Debtor as a going concern;

(f) if fifty percent (50%) or more of the aggregate Dollar amount of outstanding Accounts owed at such time by the Account Debtor

thereon is classified as ineligible under clause (a) above;

(g) which constitutes an Eligible Foreign Account or an Eligible Export-Related Account Receivable or is otherwise owned owed by an Account Debtor which: (i) does not maintain its chief executive office in the United States of America or Canada (other than the Province of Newfoundland); or (ii) is not organized under the laws of the United States of America or Canada or any state or province thereof; or (iii) is the government of any foreign country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or of any department, agency, public corporation, or other instrumentality thereof;

(h) owed by an Account Debtor which is an Affiliate or employee of any Borrower;

(i) except as provided in clause (k) below, with respect to which either the perfection, enforceability, or validity of the Agent's Liens in such Account, or the Agent's right or ability to obtain direct payment to the Agent of the proceeds of such Account, is governed by any federal, state, or local statutory requirements other than those of the UCC;

(j) owed by an Account Debtor to which the Parent or any other Borrower, is indebted in any way, or which is subject to any right of setoff or recoupment by the Account Debtor, unless the Account Debtor has entered into an agreement acceptable to the Agent to waive setoff rights; or if the Account Debtor thereon has disputed liability or made any claim with respect to any other Account due from such Account Debtor; but in each such case only to the extent of such indebtedness, setoff, recoupment, dispute, or claim;

(k) owed by the government of the United States of America, or any department, agency, public corporation, or other instrumentality thereof, unless the Federal Assignment of Claims Act of 1940, as amended (31 U.S.C. ss. 3727 et seq.), and any other steps necessary to perfect the Agent's Liens therein, have been complied with to the Agent's satisfaction with respect to such Account;

(l) owed by any state, municipality, or other political subdivision of the United States of America, or any department, agency, public corporation, or other instrumentality thereof and as to which the Agent determines that its Lien therein is not or cannot be perfected;

(m) which represents a sale on a bill-and-hold, guaranteed sale, sale and return, sale on approval, consignment, or other repurchase or return basis;

(n) which is evidenced by a promissory note or other instrument or by chattel paper;

(o) if the Agent believes, in the exercise of its reasonable judgment, that the prospect of collection of such Account is impaired or that the Account may not be paid by reason of the Account Debtor's financial inability to pay;

(p) with respect to which the Account Debtor is located in any state requiring the filing of a Notice of Business Activities Report or similar report in order to permit a Borrower to seek judicial enforcement in such State of payment of such Account, unless such Borrower has qualified to do business in such state or has filed a Notice of Business Activities Report or equivalent report for the then current year;

(q) which arises out of a sale not made in the ordinary course of a Borrower's business;

(r) with respect to which the goods giving rise to such Account have not been shipped and delivered to and accepted by the Account Debtor or the services giving rise to such Account have not been performed by a Borrower, and, if applicable, accepted by the Account Debtor, or the Account Debtor revokes its acceptance of such goods or services;

(s) owed by an Account Debtor which is obligated to a Borrower respecting Accounts the aggregate unpaid balance of which exceeds twenty-five percent (25%) of the aggregate unpaid balance of all Accounts owed such Borrower at such time by all of such Borrower's Account Debtors, but only to the extent of such excess; or

(t) which is not subject to a first priority and perfected security interest in favor of the Agent for the benefit of the Lenders.

If any Account at any time ceases to be an Eligible Account, then such Account shall promptly be excluded from the calculation of Eligible Accounts.

"Eligible Assignee" means (a) a commercial bank, commercial finance company or other asset based lender, having total assets in excess of \$1,000,000,000; (b) any Lender listed on the signature page of this Agreement; (c) any Affiliate of any Lender; and (d) if an Event of Default has occurred and is continuing, any Person reasonably acceptable to the Agent.

"Eligible Export-Related Accounts Receivable" has the meaning set forth in Borrowers' Ex-Im Agreement, but in no event will include any Eligible Foreign Accounts or Accounts that are insured or payable by a letter of credit.

"Eligible Export-Related Accounts Receivable Value" has the meaning set forth in Borrowers' Ex-Im Agreement.

"Eligible Foreign Accounts" means Accounts owed by an Account Debtor which: (a) (i) does not maintain its chief executive office in the United States of America or Canada (other than the Province of Newfoundland); or (ii) is not organized under the laws of the United States of America or Canada or any state or province thereof; or (iii) is the government of any foreign country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or of any department, agency, public corporation, or other instrumentality thereof (a "Foreign Account Debtor"); (b) (i) such Account is secured or payable by a letter of credit satisfactory to the Agent in its discretion or (ii) such Account is insured to the satisfaction

of the Agent; (c) would qualify as an Account eligible for financing under the Ex-Im Bank Working Capital Guarantee Program; (d) would qualify as an "Eligible Account" but for the fact that it is owed by a foreign Account Debtor and (e) complies with applicable laws; but in no event will Eligible Foreign Accounts include any Eligible Export-Related Accounts Receivable.

If any Account at any time ceases to be an Eligible Foreign Account, then such Account shall promptly be excluded from the calculation of Eligible Foreign Accounts.

"Eligible Factoring Credit Balances" means as at any date of determination, all Factoring Credit Balances in respect of Factored Accounts upon which the Factor shall have assumed the risk of credit loss minus the sum of any such Factored Accounts that are disputed, any deductions from payment thereon or any other fees, and any commissions, reserves or other charges due from a Borrower to a Factor, all as reflected in the Borrowing Base Certificates delivered to Lender in accordance with Section 5.2(k).

"Eligible Inventory" means Inventory, valued at the lower of cost (on a

first-in, first-out basis) or market, which the Agent, in its reasonable discretion, determines to be Eligible Inventory. Without limiting the discretion of the Agent to establish other criteria of ineligibility, Eligible Inventory shall not, unless the Agent in its sole discretion elects, include any Inventory:

(a) that is not owned by a Borrower;

(b) that is not subject to the Agent's Liens, which are perfected as to such Inventory, or that are subject to any other Lien whatsoever (other than the Liens described in clause (d) of the definition of Permitted Liens provided that such Permitted Liens (i) are junior in priority to the Agent's Liens or subject to Reserves and (ii) do not impair directly or indirectly the ability of the Agent to realize on or obtain the full benefit of the Collateral);

(c) that does not consist of finished goods, raw materials, work-in-process, chemicals, samples, prototypes, supplies, or packing and shipping materials;

(d) that is not in good condition, is unmerchantable, or does not meet all standards imposed by any Governmental Authority, having regulatory authority over such goods, their use or sale;

(e) that is not currently either usable or salable, at prices approximating at least cost, in the normal course of a Borrower's business, or that is slow moving or stale (i.e., aged greater than one year);

(f) that is obsolete or returned or repossessed or used goods taken in trade;

(g) that is located outside the United States of America or Canada (or that is in-transit from vendors or suppliers);

(h) that is located in a public warehouse or in possession of a bailee or in a facility leased by a Borrower, if the warehouseman, or the bailee, or the lessor has not delivered to the Agent, if requested by the Agent, a subordination agreement in form and substance satisfactory to the Agent or if permitted by the Agent in lieu of such a subordination agreement, a Reserve for rents or storage charges (not to exceed three months) has not been established for Inventory at that location;

(i) that contains or bears any Proprietary Rights (other than Dacron(R) and other trademarked products supplied by Dupont or the Parent) licensed to a Borrower by any Person, if the Agent is not satisfied that it may sell or otherwise dispose of such Inventory in accordance with the terms of the Security Agreement and Section 9.2 without infringing the rights of the licensor of such Proprietary Rights or violating any contract with such licensor (and without payment of any royalties other than any royalties due with respect to the sale or disposition of such Inventory pursuant to the existing license agreement), and, as to which a Borrower has not delivered to the Agent a consent or sublicense agreement from such licensor in form and substance acceptable to the Agent if requested;

(j) that is not reflected in the details of a current perpetual inventory report; or

(k) that is Inventory placed on consignment.

If any Inventory at any time ceases to be Eligible Inventory, such Inventory shall promptly be excluded from the calculation of Eligible Inventory.

"Environmental Claims" means all claims, however asserted, by any

Governmental Authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, or for a Release or injury to the environment.

"Environmental Compliance Reserve" means any reserve which the Agent establishes in its reasonable discretion after prior written notice to the Borrowers from time to time for amounts that are reasonably likely to be expended by a Borrower in order for such Borrower and its operations and property (a) to comply with any notice from a Governmental Authority asserting material non-compliance with Environmental Laws, or (b) to correct any such material non-compliance identified in a report delivered to the Agent and the Lenders pursuant to Section 7.7.

"Environmental Laws" means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case relating to environmental, health, safety and land use matters.

"Environmental Lien" means a Lien in favor of any Governmental Authority for (a) any liability under Environmental Laws, or (b) damages arising from, or costs incurred by such Governmental Authority in response to, a Release or threatened Release of a Contaminant into the environment.

"Equipment" means all of the Borrowers' now owned and hereafter acquired machinery, equipment, furniture, furnishings, fixtures, and other tangible personal property (except Inventory), including embedded software, motor vehicles with respect to which a certificate of title has been issued, aircraft, dies, tools, jigs, molds and office equipment, as well as all of such types of property leased by the Borrowers and all of the Borrowers' rights and interests with respect thereto under such leases (including, without limitation, options to purchase); together with all present and future additions and accessions thereto, replacements therefor, component and auxiliary parts and supplies used or to be used in connection therewith, and all substitutes for any of the foregoing, and all manuals, drawings, instructions, warranties and rights with respect thereto; wherever any of the foregoing is located.

"ERISA" means the Employee Retirement Income Security Act of 1974, and regulations promulgated thereunder.

"ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with the Borrowers within the meaning of Section 414(b) or (c) of the Code.

"Event of Default" has the meaning specified in Section 9.1.

"Exchange Act" means the Securities Exchange Act of 1934, and regulations promulgated thereunder.

"Ex-Im Bank" means the Export-Import Bank of the United States.

"Ex-Im Bank Guaranteed Loan" means a loan contemplated under and evidenced by the Borrowers' Ex-Im Agreement that qualifies as an eligible loan under the Ex-Im Bank Working Capital Guarantee Program and is subject to a Master Ex-Im Bank Guarantee.

"Ex-Im Bank Revolving Loan" has the meaning specified in Section 1.2(j).

"Existing Credit Agreement" means that certain Credit Agreement dated as of December 20, 2000 among the Borrower, certain of its Subsidiaries, as guarantors, the lenders party thereto, Bank of America, N.A., as administrative agent, Wachovia Bank, N.A., as syndication agent and Credit Suisse First Boston, as documentation agent.

"Factor" means The CIT Group/Commercial Services, Inc., HSBC Holdings,

First Factors Corporation, Capital Factors, Inc. , and each other factor with which a Borrower may hereafter enter into a Factoring Agreement and who has executed a Factor Assignment and Intercreditor Agreement.

"Factor Assignment and Intercreditor Agreement" means each Collateral Assignment of Factoring Credit Balances and Intercreditor Agreement among a Borrower, a Factor and the Agent, pursuant to which, among other things, such Borrower collaterally assigns to the Agent, as security for the Obligations, and such Factor acknowledges the collateral assignment to the Agent of all sums at any time or times due to or become due to such Borrower from such Factor under its

Factoring Agreement with such Borrower, and establishes the relative priorities of the respective Liens of such Factor and the Lender with respect to the Collateral.

"Factored Account" means an Account of a Borrower that is sold, assigned or otherwise transferred to a Factor pursuant to a Factoring Agreement.

"Factoring Agreements" means the Factoring Agreement, undated, between HSBC Business Credit (USA) Inc. and Unifi Sales and Distribution, Inc. and that certain Factoring Agreement dated May 2, 1988 between First Factors Corporation, succeeded by GE Capital Commercial Services, Inc. and Macfield, Inc., succeeded by Unifi, Inc. and that certain Factoring Agreement dated December 31, 1998 between The CIT Group Commercial Services, Inc. and Unifi Sales & Distribution, Inc. and that certain Capital Factors, Inc. Average Maturity Date Factoring Agreement dated on or about December 7, 2001 between Capital Factors, Inc. and Unifi, Inc.

"Factoring Credit Balances" means the monies and credit balances due or to become due to any Borrower from any Factor under its Factoring Agreement with a Borrower arising from the sale by a Borrower of Factored Accounts to such Factor as calculated and determined under the Factoring Agreements.

"FDIC" means the Federal Deposit Insurance Corporation, and any Governmental Authority succeeding to any of its principal functions.

"Federal Funds Rate" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate charged to the Bank on such day on such transactions as determined by the Agent.

"Federal Reserve Board" or "FRB" means the Board of Governors of the Federal Reserve System or any successor thereto.

"Fee Letter" means that certain fee letter dated December 4, 2001 between the Bank of America, N.A. and Unifi, Inc.

"Financial Statements" means, according to the context in which it is used, the financial statements referred to in Sections 5.2 and 6.6 or any other financial statements required to be given to the Lenders pursuant to this Agreement.

"Fiscal Year" means the Parent's fiscal year for financial accounting purposes. The current Fiscal Year of the Parent will end on June 30, 2002.

"Fixed Assets" means the Equipment and Real Estate of the Borrowers.

"Fixed Charge Coverage Ratio" means, with respect to any fiscal period of the Parent and its Domestic Subsidiaries, the ratio of (a) EBITDA for such period minus Capital Expenditures made by the Parent or any of its Domestic Subsidiaries during such period plus cash payments (excluding cash distribution of earnings) made during such period from Persons in which the Parent or any of its Domestic Subsidiaries has an ownership interest minus cash payments made during such period by the Parent or any of its Domestic Subsidiaries to Persons in which the Parent or any of its Domestic Subsidiaries has an ownership interest plus cash proceeds from asset sales received by the Parent or any of its Domestic Subsidiaries during such period minus Distributions paid by the Parent during such period minus share repurchases made by the Parent of its Capital Stock during such period minus cash invested in joint ventures and Permitted Acquisitions during such period minus cash taxes paid for such period plus tax refunds received in cash for such period to (b) Fixed Charges. Unless otherwise specified herein, the applicable period of computation shall be for the four (4) consecutive fiscal quarters ending as of the date of determination.

"Fixed Charges" means, with respect to any fiscal period of the Parent and its Domestic Subsidiaries on a consolidated basis, without duplication, cash interest expense and scheduled principal payments of Funded Debt, determined in accordance with GAAP.

"Foreign Subsidiary" means any Subsidiary of the Parent that is incorporated, formed or registered or whose principal place of business or headquarters is not in the United States.

"Funded Debt" means, as of any date of determination with respect to any fiscal period then ended, an amount equal to the aggregate principal amount then outstanding in respect of all interest-bearing Debt of the Parent and its Domestic Subsidiaries on a consolidated basis.

"Funding Date" means the date on which a Borrowing occurs.

"GAAP" means generally accepted accounting principles in the United States of America and applied on a consistent basis with the Financial Statements.

"General Intangibles" means all of the Borrowers' now owned or hereafter acquired general intangibles, choses in action and causes of action and all other intangible personal property of the Borrowers of every kind and nature (other than Accounts), including, without limitation, all contract rights, payment intangibles, Proprietary Rights, corporate or other business records, inventions, designs, blueprints, plans, specifications, patents, patent applications, trademarks, service marks, trade names, trade secrets, goodwill, copyrights, computer software, customer lists, registrations, licenses, franchises, tax refund claims, any funds which may become due to the Borrowers in connection with the termination of any Plan or other employee benefit plan or any rights thereto and any other amounts payable to the Borrowers from any Plan or other employee benefit plan, rights and claims against carriers and shippers, rights to indemnification, business interruption insurance and proceeds thereof, property, casualty or any similar type of insurance and any proceeds thereof, proceeds of

insurance covering the lives of key employees on which a Borrower is beneficiary, rights to receive dividends, distributions, cash, Instruments and other property in respect of or in exchange for pledged equity interests or Investment Property and any letter of credit, guarantee, claim, security interest or other security held by or granted to a Borrower.

"Goods" means all "goods" as defined in the UCC, now owned or hereafter acquired by a Borrower, wherever located, including embedded software to the extent included in "goods" as defined in the UCC, manufactured homes, standing timber that is cut and removed for sale and unborn young of animals.

"Governmental Authority" means any nation or government, any state or

other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"Guaranty" means, with respect to any Person, all obligations of such Person which in any manner directly or indirectly guarantee or assure, or in effect guarantee or assure, the payment or performance of any indebtedness, dividend or other obligations of any other Person (the "guaranteed obligations"), or assure or in effect assure the holder of the guaranteed obligations against loss in respect thereof, including any such obligations incurred through an agreement, contingent or otherwise: (a) to purchase the guaranteed obligations or any property constituting security therefor; (b) to advance or supply funds for the purchase or payment of the guaranteed obligations or to maintain a working capital or other balance sheet condition; or (c) to lease property or to purchase any debt or equity securities or other property or services.

"Hedge Agreement" means any and all transactions, agreements or documents now existing or hereafter entered into, which provides for an interest rate, credit, commodity or equity swap, cap, floor, collar, forward foreign exchange transaction, currency swap, cross currency rate swap, currency option, or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging the Borrowers' exposure to fluctuations in interest or exchange rates, loan, credit exchange, security or currency valuations or commodity prices.

"Immaterial Subsidiary" means any Domestic Subsidiary the Collateral of which does not exceed \$100,000. As of the date hereof, the Immaterial Subsidiaries are Unifi International Service, Inc., a North Carolina corporation, Unifi Technical Fabrics, LLC, a North Carolina limited liability company, Spanco Industries, Inc., a North Carolina corporation and Spanco International, Inc., a North Carolina corporation.

"Indenture" means that certain indenture dated February 5, 1998 between the Parent and First Union National Bank, as trustee, as amended, modified or supplemented from time to time.

"Instruments" means all instruments as such term is defined in the UCC, now owned or hereafter acquired by any Borrower.

"Interest Period" means, as to any LIBOR Rate Loan, the period commencing on the Funding Date of such Loan or on the Continuation/Conversion Date on which the Loan is converted into or continued as a LIBOR Rate Loan, and ending on the date one, two, three or six months thereafter as selected by the Borrower in its Notice of Borrowing, in the form attached hereto as Exhibit D, or Notice of Continuation/Conversion, in the form attached hereto as Exhibit E, provided that:

(a) if any Interest Period would otherwise end on a day that is not a Business Day, that Interest Period shall be extended to the following Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day;

(b) any Interest Period pertaining to a LIBOR Rate Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) no Interest Period shall extend beyond the Stated Termination Date.

"Interest Rate" means each or any of the interest rates, including the

Default Rate, set forth in Section 2.1.

"Inventory" means all of the Borrowers' now owned and hereafter acquired inventory, goods and merchandise, wherever located, to be furnished under any contract of service or held for sale or lease, all returned goods, raw materials, work-in-process, finished goods (including embedded software), other materials and supplies of any kind, nature or description which are used or consumed in the Borrowers' business or used in connection with the packing, shipping, advertising, selling or finishing of such goods, merchandise, and all documents of title or other Documents representing them.

"Investment Property" means all of the Borrowers' right title and interest in and to any and all: (a) securities whether certificated or uncertificated; (b) securities entitlements; (c) securities accounts; (d) commodity contracts; or (e) commodity accounts.

"IRS" means the Internal Revenue Service and any Governmental Authority succeeding to any of its principal functions under the Code.

"Latest Projections" means: (a) on the Closing Date and thereafter until the Agent receives new projections pursuant to Section 5.2(e), the projections of the Borrowers' financial condition, results of operations, and cash flows, for the period commencing on June 25, 2001 and ending on June 30, 2002 and delivered to the Agent prior to the Closing Date; and (b) thereafter, the projections most recently received by the Agent pursuant to Section 5.2(f).

"Lender" and "Lenders" have the meanings specified in the introductory paragraph hereof and shall include the Agent to the extent of any Agent Advance outstanding and the Bank to the extent of any Ex-Im Bank Revolving Loan or Non-Ratable Loan outstanding; provided

that no such Agent Advance or Ex-Im Bank Revolving Loan or Non-Ratable Loan shall be taken into account in determining any Lender's Pro Rata Share.

"Letter of Credit" has the meaning specified in Section 1.4(a).

"Letter of Credit Fee" has the meaning specified in Section 2.6.

"Letter of Credit Fee Percentage" means a per annum percent equal to the Applicable Margin for LIBOR Rate Loans.

"Letter of Credit Issuer" means the Bank, any affiliate of the Bank or any other financial institution that issues any Letter of Credit pursuant to this Agreement.

"Letter-of-Credit Rights" means "letter-of-credit rights" as such term is defined in the UCC, now owned or hereafter acquired by any Borrower, including rights to payment or performance under a letter of credit, whether or not such Borrower, as beneficiary, has demanded or is entitled to demand payment or performance.

"Letter of Credit Subfacility" means \$10,000,000.

"Leverage Ratio" means, with respect to any fiscal period of the Parent and its Domestic Subsidiaries, the ratio of (a) Funded Debt to (b) EBITDA.

"LIBOR Interest Payment Date" means, with respect to a LIBOR Rate Loan, the Termination Date and the last day of each Interest Period applicable to such Loan or, with respect to each Interest Period of greater than three months in duration, the last day of the third month of such Interest Period and the last day of such Interest Period.

"LIBOR Rate" means, for any Interest Period, with respect to LIBOR Rate Loans, the rate of interest per annum determined pursuant to the following formula:

$$\text{LIBOR Rate} = \frac{\text{Offshore Base Rate}}{1.00 - \text{Eurodollar Reserve Percentage}}$$

Where,

"Offshore Base Rate" means the rate per annum appearing on Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period. If for any reason such rate is not available, the Offshore Base Rate shall be, for any Interest Period, the rate per annum appearing on Reuters Screen LIBO Page as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period; provided, however, if more than one rate is specified on Reuters Screen LIBO Page, the applicable rate shall be the arithmetic mean of all such rates. If for any reason none of the foregoing

rates is available, the Offshore Base Rate shall be, for any Interest Period, the rate per annum determined by Agent as the rate of interest at which dollar deposits in the approximate amount of the LIBOR Rate Loan comprising part of such Borrowing would be offered by the Bank's London Branch to major banks in the offshore dollar market at their request at or about 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period.

"Eurodollar Reserve Percentage" means, for any day during any Interest Period, the reserve percentage (expressed as a decimal, rounded upward to the next 1/100th of 1%) in effect on such day applicable to member banks under regulations issued from time to time by the Federal Reserve Board for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as "Eurocurrency liabilities"). The Offshore Rate for each outstanding LIBOR Rate Loan shall be adjusted automatically as of the effective date of any change in the Eurodollar Reserve Percentage.

"LIBOR Rate Loans" means the LIBOR Revolving Loans.

"LIBOR Revolving Loan" means a Revolving Loan during any period in which it bears interest based on the LIBOR Rate.

"Lien" means: (a) any interest in property securing an obligation owed to, or a claim by, a Person other than the owner of the property, whether such interest is based on the common law, statute, or contract, and including a security interest, charge, claim, or lien arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, agreement, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes; (b) to the extent not included under clause (a), any reservation, exception, encroachment, easement, right-of-way, covenant, condition, restriction, lease or other title exception or encumbrance affecting property; and (c) any contingent or other agreement to provide any of the foregoing.

"Loan Account" means the loan account of the Borrowers, which account shall be maintained by the Agent.

"Loan Documents" means this Agreement, the Factor Assignment and Intercreditor Agreements, the Security Agreement, the Borrowers' Ex-Im

Agreement, and any other agreements, instruments, and documents heretofore, now or hereafter evidencing, securing, guaranteeing or otherwise relating to the Obligations, the Collateral, or any other aspect of the transactions contemplated by this Agreement.

"Loans" means, collectively, all loans and advances provided for in Article 1.

"Majority Lenders" means at any date of determination Lenders whose Pro Rata Shares aggregate more than 50%.

"Margin Stock" means "margin stock" as such term is defined in Regulation T, U or X of the Federal Reserve Board.

"Master Ex-Im Bank Guarantee" means an Export-Import Bank of the United States Working Capital Guarantee Program Master Guarantee Agreement executed by Ex-Im Bank and the Agent pertaining to the Ex-Im Bank Working Capital Guarantee Program.

"Material Adverse Effect" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, condition (financial or otherwise) or prospects of the Borrowers and their Subsidiaries taken as a whole, (b) a material adverse change in, or a material adverse effect upon the Collateral; (c) a material impairment of the ability of the Borrowers to perform under any Loan Document to which it is a party; or (d) a material adverse effect upon the legality, validity, binding effect or enforceability against any Borrower of any Loan Document to which it is a party.

"Maximum Inventory Loan Amount" means \$75,000,000.

"Maximum Revolver Amount" means \$150,000,000, or such lesser amount as determined pursuant to the provisions of Section 3.2.

"Multi-employer Plan" means a "multi-employer plan" as defined in Section 4001(a)(3) of ERISA.

"Net Amount of Eligible Accounts" means, at any time, the gross amount of Eligible Accounts less sales, excise or similar taxes, and less returns, discounts, claims, credits and allowances accrued rebates, offsets, deductions, counterclaims, disputes and other defenses of any nature at any time issued, owing, granted, outstanding, available or claimed.

"Net Amount of Eligible Foreign Accounts" means, at any time, the gross amount of Eligible Foreign Accounts less sales, excise or similar taxes, and less returns, discounts, claims, credits and allowances accrued rebates, offsets, deductions, counterclaims, disputes and other defenses of any nature at any time issued, owing, granted, outstanding, available or claimed.

"Net Orderly Liquidation Value" means the appraised orderly liquidation value of Eligible Inventory, net of all costs, fees and expenses of such liquidation as determined by an appraiser acceptable to Agent in its sole discretion.

"Net Proceeds" has the meaning specified in Section 3.4(b).

"Non-Ratable Loan" and "Non-Ratable Loans" have the meanings specified in Section 1.2(h).

"Notice of Borrowing" has the meaning specified in Section 1.2(b).

"Notice of Continuation/Conversion" has the meaning specified in Section 2.2(b).

"Obligations" means all present and future loans, advances,

liabilities, obligations, covenants, duties, and debts owing by any Borrower to the Agent and/or any Lender, arising under or pursuant to this Agreement or any of the other Loan Documents, whether or not evidenced by any note, or other instrument or document, whether arising from an extension of credit, opening of a letter of credit, acceptance, loan, guaranty, indemnification or otherwise, whether direct or indirect, absolute or contingent, due or to become due, primary or secondary, as principal or guarantor, and including all principal, interest, charges, expenses, fees, attorneys' fees, filing fees and any other sums chargeable to the Borrowers hereunder or under any of the other Loan Documents. "Obligations" includes, without limitation, (a) all debts, liabilities, and obligations now or hereafter arising from or in connection with the Letters of Credit and (b) all debts, liabilities and obligations now or hereafter arising from or in connection with Bank Products.

"Obligor" means any Borrower, and "Obligors" means the Borrowers, collectively.

"Other Taxes" means any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Documents.

"Participant" means any Person who shall have been granted the right by any Lender to participate in the financing provided by such Lender under this Agreement, and who shall have entered into a participation agreement in form and substance satisfactory to such Lender.

"Payment Account" means each bank account established pursuant to the Security Agreement, to which the proceeds of Accounts and other Collateral are deposited or credited, and which is maintained in the name of the Agent or any Borrower, as the Agent may determine, on terms acceptable to the Agent.

"PBGC" means the Pension Benefit Guaranty Corporation or any Governmental Authority succeeding to the functions thereof.

"Pending Revolving Loans" means, at any time, the aggregate principal amount of all Revolving Loans requested in any Notice of Borrowing received by the Agent which have not yet been advanced.

"Pension Plan" means a "pension plan" as defined in Section 3(2) of ERISA which is subject to Title IV of ERISA and which is not a Multi-employer Plan.

"Permitted Acquisition" means the acquisition in a single transaction or series of related transactions of the property and assets or Capital Stock or a business unit of another Person by any Borrower (including any such acquisition by merger to the extent no Change of Control shall occur) so long as (1) such acquired assets are in the same or a similar line of business in compliance with Section 7.17 hereof, (2) such acquisition is in compliance with the definition of Restricted Investments, (3) in the case of an acquisition of Capital Stock, all liabilities of the

target company to be assumed by the Borrowers shall have been approved by the Required Lenders and (4) the target company or the assets to be acquired shall have demonstrated positive net profits for the four fiscal quarter period ending immediately prior to such acquisition.

"Permitted Liens" means:

(a) Liens for taxes not delinquent or statutory Liens for taxes in an amount not to exceed \$1,000,000 provided that the payment of such taxes which are due and payable is being contested in good faith and by appropriate proceedings diligently pursued and as to which adequate financial reserves have been established on a Borrower's books and records and a stay of enforcement of any such Lien is in effect;

(b) the Agent's Liens;

(c) Liens consisting of deposits made in the ordinary course of business in connection with, or to secure payment of, obligations under worker's compensation, unemployment insurance, social security and other similar laws, or to secure the performance of bids, tenders or contracts (other than for the repayment of Debt) or to secure indemnity, performance or other similar bonds for the performance of bids, tenders or contracts (other than for the repayment of Debt) or to secure statutory obligations (other than liens in excess of \$1,000,000 arising under ERISA or Environmental Liens) or surety or appeal bonds, or to secure indemnity, performance or other similar bonds;

(d) Liens securing the claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like Persons, provided that if any such Lien arises from the nonpayment of such claims or demand when due, such claims or demands do not exceed \$1,000,000 in the aggregate;

(e) Liens constituting encumbrances in the nature of reservations, exceptions, encroachments, easements, rights of way, covenants running with the land, and other similar title exceptions or encumbrances affecting any Real Estate; provided that they do not in the aggregate materially detract from the value of the Real Estate or materially interfere with its use in the ordinary conduct of any Borrower's business;

(f) Liens arising from judgments and attachments in connection with court proceedings provided that the attachment or enforcement of such Liens would not result in an Event of Default hereunder and such Liens are being contested in good faith by appropriate proceedings, adequate reserves have been set aside and no material Property is subject to a material risk of loss or forfeiture and the claims in respect of such Liens are fully covered by insurance (subject to ordinary and customary deductibles) and a stay of execution pending appeal or proceeding for review is in effect;

(g) Liens permitted by Sections 7.13 or 7.19, provided that any such Lien attaches substantially simultaneously with the incurrence of the related debt or other obligation;

(h) operating leases or subleases granted to others not interfering in any material respect with the business of the Borrowers;

(i) any interest of title of a lessor under, and Liens arising from UCC financing statements (or equivalent filings, registrations or agreements in foreign jurisdictions) relating to, leases permitted by this Agreement;

(j) normal and customary rights of setoff upon deposits of cash in favor of banks or other depository institutions;

(k) Liens of a collecting bank arising under Section 4-210 of the UCC on items in the course of collection;

(l) Liens created or deemed to exist in connection with any Factoring Agreements or consignment agreements approved by the Agent and Liens arising from UCC financing statements (or equivalent filings, registrations, or agreements in foreign jurisdictions) relating to, such approved Factoring Agreements and consignment agreements; and

(m) a mortgage lien securing mortgage Debt permitted pursuant to Section 7.13 (g) to finance the purchase of the Corporate Headquarters.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, Governmental Authority, or any other entity.

"Plan" means an employee benefit plan (as defined in Section 3(3) of ERISA), which any Borrower sponsors or maintains or to which any Borrower makes, is making, or is obligated to make contributions and includes any Pension Plan.

"Proprietary Rights" means all of each Borrower's now owned and hereafter arising or acquired: licenses, franchises, permits, patents, patent rights, copyrights, works which are the subject matter of copyrights, trademarks, service marks, trade names, trade styles, patent, trademark and service mark applications, and all licenses and rights related to any of the foregoing, including those patents, trademarks, service marks, trade names and copyrights set forth on Schedule 6.12 hereto, and all other rights under any of the foregoing, all extensions, renewals, reissues, divisions, continuations, and continuations-in-part of any of the foregoing, and all rights to sue for past, present and future infringement of any of the foregoing.

"Pro Rata Share" means, with respect to a Lender, a fraction (expressed as a percentage), the numerator of which is the amount of such Lender's Commitment and the denominator of which is the sum of the amounts of all of the Lenders' Commitments, or if no Commitments are outstanding, a fraction (expressed as a percentage), the numerator of which is the amount of Obligations owed to such Lender and the denominator of which is the aggregate amount of the

Obligations owed to the Lenders, in each case giving effect to a Lender's participation in Ex-Im Bank Revolving Loans, Non-Ratable Loans and Agent Advances.

"Real Estate" means all of each Borrower's now or hereafter owned or leased estates in real property, including, without limitation, all fees, leaseholds and future interests, together with all of each Borrower's now or hereafter owned or leased interests in the improvements thereon, the fixtures attached thereto and the easements appurtenant thereto.

"Release" means a release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration of a Contaminant into the indoor or outdoor environment or into or out of any Real Estate or other property, including the movement of Contaminants through or in the air, soil, surface water, groundwater or Real Estate or other property.

"Required Lenders" means at any time Lenders whose Pro Rata Shares aggregate more than 66-2/3%.

"Requirement of Law" means, as to any Person, any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or of a Governmental Authority, in each case applicable to or binding upon the Person or any of its property or to which the Person or any of its property is subject.

"Reserves" means reserves that limit the availability of credit hereunder, consisting of reserves against Availability, Eligible Accounts or Eligible Inventory, established by Agent from time to time in Agent's reasonable credit judgment. Without limiting the generality of the foregoing, the following reserves shall be deemed to be a reasonable exercise of Agent's credit judgment: (a) Bank Product Reserves, (b) a reserve for accrued, unpaid interest on the Obligations, (c) reserves for rent, not to exceed three (3) months, at leased locations subject to statutory or contractual landlord liens, (d) Inventory shrinkage, (e) customs charges, (f) dilution, (g) warehousemen's or bailees' charges, (h) reserves of up to ten percent (10%) of the amount of Ex-Im Bank Revolving Loans and (i) reserves for insurance deductibles.

"Responsible Officer" means the chief executive officer, the president or vice president of any Borrower, or any other officer having substantially the same authority and responsibility; or, with respect to compliance with financial

covenants and the preparation of the Borrowing Base Certificate, the chief financial officer or the treasurer of any Borrower, or any other officer having substantially the same authority and responsibility, and, for purposes of execution and delivery of the monthly management reports and the quarterly financial statements, the Borrowing Base Certificate and other collateral reports and certificates, and Notices of Borrowing, the Director of Credit, the Finance Director or the Director of Financial Planning, but only so long as each such Director is fully covered under the Borrowers' D&O insurance policies to the same extent as the other senior financial officers of the Borrowers.

"Restricted Investment" means, as to the Borrowers, any acquisition of property by any Borrower in exchange for cash or other property, whether in the form of an acquisition of stock, debt, or other indebtedness or obligation, or the purchase or acquisition of any other property, or

a loan, advance, capital contribution, or subscription, except the following: (a) acquisitions of Equipment to be used in the business of any Borrower so long as the acquisition costs thereof constitute Capital Expenditures permitted hereunder; (b) acquisitions of Inventory in the ordinary course of business of the Borrowers; (c) acquisitions of current assets acquired in the ordinary course of business of the Borrowers; (d) direct obligations of the United States of America, or any agency thereof, or obligations guaranteed by the United States of America, provided that such obligations mature within one year from the date of acquisition thereof; (e) acquisitions of certificates of deposit maturing within one year from the date of acquisition, bankers' acceptances, Eurodollar bank deposits, or overnight bank deposits, in each case issued by, created by, or with a bank or trust company organized under the laws of the United States of America or any state thereof having capital and surplus aggregating at least \$100,000,000; (f) acquisitions of commercial paper given a rating of "A2" or better by Standard & Poor's Corporation or "P2" or better by Moody's Investors Service, Inc. and maturing not more than 90 days from the date of creation thereof; (g) Hedge Agreements; (h) non-cash investments (so long as the non-cash items paid, contributed or exchanged in connection with such investments do not constitute Collateral) and (i) cash investments in joint ventures and Permitted Acquisitions, but only so long as (1) the Fixed Charge Coverage Ratio is not less than 1.0 to 1.0 after giving effect to such investment on a pro forma basis, (2) Availability is (and would be after giving effect to such investment) greater than or equal to \$25,000,000 and (3) no Default or Event of Default exists prior to or immediately after the making of any such investment; provided, however, that if Availability would be less than \$25,000,000 but greater than or equal to \$10,000,000 after giving effect to the making of any such investment, notwithstanding the foregoing, such investment may be made in accordance with and subject to the other requirements of this clause (i) if after giving effect to the making thereof, the Fixed Charge Coverage Ratio would not be less than 1.10 to 1.0 and the Leverage Ratio would not be greater than 5.0 to 1.0, determined on a pro forma basis. For purposes of clause (i) of this definition, "pro forma basis" shall mean that compliance with the financial covenants referred to in this clause (i) shall be determined on the basis of the financial statements and related numbers for the four consecutive fiscal quarters ending with the fiscal quarter immediately preceding the date on which any such investment is to be made and giving effect to the making of such investment as if it were made on the first day of the four consecutive fiscal quarters ending with such fiscal quarter.

"Revolving Loans" has the meaning specified in Section 1.2 and includes each Ex-Im Bank Revolving Loan, Agent Advance and Non-Ratable Loan.

"Security Agreement" means the Security Agreement of even date herewith among the Borrowers and Agent for the benefit of Agent and other Lenders.

"Settlement" and "Settlement Date" have the meanings specified in Section 12.15(a) (ii).

"Software" means all "software" as such term is defined in the UCC, now owned or hereafter acquired by any Borrower, other than software embedded in any

category of Goods, including all computer programs and all supporting information provided in connection with a transaction related to any program.

"Solvent" means, when used with respect to any Person, that at the time of determination:

(a) the assets of such Person, at a fair valuation, are in excess of the total amount of its debts (including contingent liabilities); and

(b) the present fair saleable value of its assets is greater than its probable liability on its existing debts as such debts become absolute and matured; and

(c) it is then able and expects to be able to pay its debts (including contingent debts and other commitments) as they mature; and

(d) it has capital sufficient to carry on its business as conducted and as proposed to be conducted.

For purposes of determining whether a Person is Solvent, the amount of any contingent liability shall be computed as the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Stated Termination Date" means December 7, 2006.

"Subsidiary" of a Person means any corporation, association, partnership, limited liability company, joint venture or other business entity of which more than fifty percent (50%) of the voting stock or other equity interests (in the case of Persons other than corporations), is owned or controlled directly or indirectly by the Person, or one or more of the Subsidiaries of the Person, or a combination thereof. Unless the context otherwise clearly requires, references herein to a "Subsidiary" refer to a Subsidiary of the Parent.

"Supporting Obligations" means all supporting obligations as such term is defined in the UCC, including letters of credit and guaranties issued in support of Accounts, Chattel Paper, Documents, General Intangibles, Instruments, or Investment Property.

"Synthetic Lease" means a lease treated as an operating lease under GAAP and as a loan or financing for United States income tax purposes and pursuant to which the lessee retains the economic risk with respect to the value of the residual interest in the leased property.

"Taxes" means any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Agent, such taxes (including income taxes or franchise taxes) as are imposed on or measured by the Agent's or each Lender's net income in any the jurisdiction (whether federal, state or local and including any political subdivision thereof) under the laws of which such Lender or the Agent, as the case may be, is organized or maintains a lending office.

"Termination Date" means the earliest to occur of (i) the Stated Termination Date, (ii) the date the Total Facility is terminated either by the Borrowers pursuant to Section 3.2 or by the

Required Lenders pursuant to Section 9.2, and (iii) the date this Agreement is otherwise terminated for any reason whatsoever pursuant to the terms of this Agreement.

"Total Facility" has the meaning specified in Section 1.1 adjusted for permanent reductions pursuant to Section 3.2.

"UCC" means the Uniform Commercial Code, as in effect from time to time, of the State of North Carolina or of any other state the laws of which are required as a result thereof to be applied in connection with the issue of perfection of security interests; provided, that to the extent that the UCC is used to define any term herein or in any other documents and such term is defined differently in different Articles or Divisions of the UCC, the definition of such term contained in Article or Division 9 shall govern.

"Unused Letter of Credit Subfacility" means an amount equal to \$10,000,000 minus the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit plus, without duplication, (b) the aggregate unpaid reimbursement obligations with respect to all Letters of Credit.

"Unused Line Fee" has the meaning specified in Section 2.5.

"Voting Stock" means, with respect to any Person, Capital Stock issued by such Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

"Wachovia Asset Securitization" means that certain receivables financing dated December 19, 2000 among Unifi Receivables, LLC, as Seller, Unifi, Inc., as initial servicer, Blue Ridge Asset Funding Corporation and Wachovia Bank, N.A., as Agent.

EXHIBIT (10f)

SECURITY AGREEMENT

SECURITY AGREEMENT, dated as of December 7, 2001, between UNIFI INC., a New York corporation ("Company"), and certain of its domestic Subsidiaries (individually a "Subsidiary Borrower", and collectively the "Subsidiary Borrowers"; and together with the Company, individually a "Grantor" and collectively the "Grantors") and BANK OF AMERICA, N.A., in its capacity as Agent for Lenders.

W I T N E S S E T H:

WHEREAS, pursuant to that certain Credit Agreement dated as of the date hereof by and among Grantors, Agent and Lenders (including all annexes, exhibits and schedules thereto, as from time to time amended, restated, supplemented or otherwise modified, the "Credit Agreement"), Lenders have agreed to make the Loans and issue Letters of Credit on behalf of Grantors;

WHEREAS, in order to induce Agent and Lenders to enter into the Credit Agreement and the other Loan Documents and to induce Lenders to make the Loans to the Grantors and issue Letters of Credit on behalf of the Grantors as provided for in the Credit Agreement, Grantors have agreed to grant a continuing Lien on the Collateral (as hereinafter defined) to secure the Obligations;

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DEFINED TERMS. The following terms shall have the following respective meanings:

"Accounts" means all of the Grantors' now owned or hereafter acquired or arising accounts, as defined in the UCC, including any rights to payment for the sale or lease of goods or rendition of services, whether or not they have been earned by performance, and all medical receivables.

"Affiliate" means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person or which owns, directly or indirectly, ten percent (10%) or more of the outstanding equity interest of such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, by contract, or otherwise.

"Assigned Contracts" means, collectively, all of the Grantors' rights and remedies under, and all moneys and claims for money due or to become due to the Borrower or any of the

Grantors under those contracts set forth on Schedule VII hereto, and any other material contracts, and any and all amendments, supplements, extensions, and renewals thereof including all rights and claims of any Grantor now or hereafter existing: (i) under any insurance, indemnities, warranties, and guarantees provided for or arising out of or in connection with any of the foregoing agreements; (ii) for any damages arising out of or for breach or default under or in connection with any of the foregoing contracts; (iii) to all other amounts from time to time paid or payable under or in connection with any of the foregoing agreements; or (iv) to exercise or enforce any and all covenants, remedies, powers and privileges thereunder.

"Chattel Paper" means all of the Grantors' now owned or hereafter

acquired chattel paper, as defined in the UCC, including electronic chattel paper.

"Deposit Accounts" means all "deposit accounts" as such term is defined in the UCC, now or hereafter held in the name of any Grantor.

"Documents" means all documents as such term is defined in the UCC, including bills of lading, warehouse receipts or other documents of title, now owned or hereafter acquired by any Grantor.

"General Intangibles" means all of the Grantors' now owned or hereafter acquired general intangibles, choses in action and causes of action and all other intangible personal property of any Grantor of every kind and nature (other than Accounts), including, without limitation, all contract rights, payment intangibles, Proprietary Rights, corporate or other business records, inventions, designs, blueprints, plans, specifications, patents, patent applications, trademarks, service marks, trade names, trade secrets, goodwill, copyrights, computer software, customer lists, registrations, licenses, franchises, tax refund claims, any funds which may become due to any Grantor in connection with the termination of any employee benefit plan or any rights thereto and any other amounts payable to any Grantor from any employee benefit plan, rights and claims against carriers and shippers, rights to indemnification, business interruption insurance and proceeds thereof, property, casualty or any similar type of insurance and any proceeds thereof, proceeds of insurance covering the lives of key employees on which any Grantor is beneficiary, rights to receive dividends, distributions, cash, Instruments and other property in respect of or in exchange for pledged equity interests or Investment Property and any letter of credit, guarantee, claim, security interest or other security held by or granted to any Grantor.

"Instruments" means all instruments as such term is defined in the UCC, now owned or hereafter acquired by any Grantor.

"Inventory" means all of the Grantors' now owned and hereafter acquired inventory, goods and merchandise, wherever located, to be furnished under any contract of service or held for sale or lease, all returned goods, raw materials, work-in-process, finished goods (including embedded software), other materials and supplies of any kind, nature or description which are used or consumed in the Grantors' business or used in connection with the packing, shipping, advertising, selling or finishing of such goods, merchandise, and all documents of title or other Documents representing them.

"Letter-of-Credit Rights" means "letter-of-credit rights" as such term is defined in the UCC, now owned or hereafter acquired by any Grantor, including rights to payment or performance under a letter of credit, whether or not any Grantor, as beneficiary, has demanded or is entitled to demand payment or performance.

"Payment Account" means each bank account established pursuant to this Security Agreement, to which the proceeds of Accounts and other Collateral are deposited or credited, and which is maintained in the name of the Agent or any Grantor, as the Agent may determine, on terms acceptable to the Agent.

"Proprietary Rights" means all of the Grantors' now owned and hereafter arising or acquired: licenses, franchises, permits, patents, patent rights, copyrights, works which are the subject matter of copyrights, trademarks, service marks, trade names, trade styles, patent, trademark and service mark applications, and all licenses and rights related to any of the foregoing, and all other rights under any of the foregoing, all extensions, renewals, reissues, divisions, continuations, and continuations-in-part of any of the foregoing, and all rights to sue for past, present and future infringement of any of the foregoing.

"Software" means all "software" as such term is defined in the UCC, now owned or hereafter acquired by any Grantor, other than software embedded in any

category of Goods, including all computer programs and all supporting information provided in connection with a transaction related to any program.

"Supporting Obligations" means all supporting obligations as such term is defined in the UCC.

"UCC" means the Uniform Commercial Code, as in effect from time to time, of the State of North Carolina or of any other state the laws of which are required as a result thereof to be applied in connection with the issue of perfection of security interests.

"Uniform Commercial Code jurisdiction" means any jurisdiction that has adopted "Revised Article 9" of the UCC on or after July 1, 2001.

All other capitalized terms used but not otherwise defined herein have the meanings given to them in the Credit Agreement or in Annex A thereto. All other undefined terms contained in this Security Agreement, unless the context indicates otherwise, have the meanings provided for by the UCC to the extent the same are used or defined therein.

2. GRANT OF LIEN.

(a) As security for all Obligations, each of the Grantors hereby grants to the Agent, for the benefit of the Agent and the Lenders, a continuing security interest in, lien on, assignment of and right of set-off against, all of the following property and assets of each such respective Grantor, whether now owned or existing or hereafter acquired or arising, regardless of where located:

- (i) all Accounts;
- (ii) all Inventory;
- (iii) all contract rights, including Assigned Contracts;
- (iv) all Chattel Paper;
- (v) all Documents;
- (vi) all Instruments;
- (vii) all Supporting Obligations and Letter-of-Credit Rights;
- (viii) all General Intangibles (including payment intangibles and Software);
- (ix) all of the Grantors' Deposit Accounts, credits, and balances with and other claims against the Agent or any Lender or any of their Affiliates or any other financial institution with which any Grantor maintains deposits, including any Payment Accounts;
- (x) all books, records and other property related to or referring to any of the foregoing, including books, records, account ledgers, data processing records, computer software and other property and General Intangibles at any time evidencing or relating to any of the foregoing; and
- (xi) all accessions to, substitutions for and replacements, products and proceeds of any of the foregoing, including, but not limited to, proceeds of any insurance policies, claims against third parties, and condemnation or

requisition payments with respect to all or any of the foregoing.

All of the foregoing and all other property of any Grantor in which the Agent or any Lender may at any time be granted a Lien as collateral for the Obligations, is herein collectively referred to as the "Collateral."

(b) All of the Obligations shall be secured by all of the Collateral.

3. PERFECTION AND PROTECTION OF SECURITY INTEREST.

(a) Each Grantor shall, at its expense, perform all steps requested by the Agent at any time to perfect, maintain, protect, and enforce the Agent's Liens, including: (i) executing and filing financing or continuation statements, and amendments thereof, in form and substance reasonably satisfactory to the Agent; (ii) delivering to the Agent warehouse receipts covering any portion of the Collateral located in warehouses and for

which warehouse receipts are issued and certificates of title covering any portion of the collateral for which certificates of title have been issued; (iii) when an Event of Default has occurred and is continuing, transferring Inventory to warehouses or other locations designated by the Agent; (iv) placing notations on the Grantors' books of account to disclose the Agent's security interest; and (v) taking such other steps as are deemed necessary or desirable by the Agent to maintain and protect the Agent's Liens. Each Grantor agrees that a carbon, photographic, photostatic, or other reproduction of this Security Agreement or of a financing statement is sufficient as a financing statement.

(b) Unless Agent shall otherwise consent in writing (which consent may be revoked), each Grantor shall deliver to Agent all Collateral consisting of negotiable Documents, certificated securities (accompanied by stock papers executed in blank), Chattel Paper and Instruments promptly after such Grantor receives the same.

(c) Each Grantor shall in all instances use its commercially reasonable best efforts to obtain signed acknowledgements of Agent's Liens from bailees having possession of any Collateral that they hold for the benefit of Agent and each Grantor shall use its commercially reasonable best efforts to obtain waivers or subordinations of Liens from landlords and mortgagees unless the Agent shall have agreed in its sole discretion to make Reserves against the Borrowing Base for rent under such leases.

(d) If required by the terms of the Credit Agreement and not waived by Agent in writing (which waiver may be revoked), each Grantor shall obtain authenticated control agreements from each issuer of uncertificated securities, securities intermediary, or commodities intermediary issuing or holding any financial assets or commodities to or for such Grantor.

(e) If a Grantor is or becomes the beneficiary of a letter of credit, such Grantor shall promptly notify Agent thereof and enter into a tri-party agreement with Agent and the issuer and/or confirmation bank with respect to Letter-of-Credit Rights assigning such Letter-of-Credit Rights to Agent and directing all payments thereunder to the Payment Account, all in form and substance reasonably satisfactory to Agent.

(f) Each Grantor shall take all steps necessary to grant the Agent control of all electronic chattel paper in accordance with the

Code and all "transferable records" as defined in the Uniform Electronic Transactions Act.

(g) Each Grantor hereby irrevocably authorizes the Agent at any time and from time to time to file in any filing office in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral as being of an equal or lesser scope or with greater detail, and (b) contain any other information required by part 5 of Article 9 of the UCC of the State of North Carolina for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether such Grantor is an organization, the type of organization and any organization identification number issued to such Grantor, and (ii) in the case of a financing statement filed as a fixture filing or indicating Collateral as

as-extracted collateral or timber to be cut, a sufficient description of real property to which the Collateral relates. Each Grantor agrees to furnish any such information to the Agent promptly upon request. Each Grantor also ratifies its authorization for the Agent to have filed in any Uniform Commercial Code jurisdiction any like initial financing statements or amendments thereto if filed prior to the date hereof.

(h) Unless otherwise consented by Agent, each Grantor shall promptly after the filing of any commercial tort claim (as defined in the UCC) acquired by it, enter into a supplement to this Security Agreement, granting to Agent a Lien in such commercial tort claim.

(i) From time to time, each Grantor shall, upon the Agent's request, execute and deliver confirmatory written instruments pledging to the Agent, for the ratable benefit of the Agent and the Lenders, the Collateral, but the Grantor's failure to do so shall not affect or limit any security interest or any other rights of the Agent or any Lender in and to the Collateral with respect to such Grantor. So long as the Credit Agreement is in effect and until all Obligations have been fully satisfied, the Agent's Liens shall continue in full force and effect in all Collateral (whether or not deemed eligible for the purpose of calculating the Availability or as the basis for any advance, loan, extension of credit, or other financial accommodation).

(j) [reserved].

(k) No Reincorporation. Without limiting the prohibitions on mergers involving the Grantors contained in the Credit Agreement, no Grantor shall reincorporate or reorganize itself under the laws of any jurisdiction other than the jurisdiction in which it is incorporated or organized as of the date hereof or change its type of entity as identified on Schedule II without the prior written consent of Agent.

(l) Terminations Amendments Not Authorized. Each Grantor acknowledges that it is not authorized to file any financing statement or amendment or termination statement with respect to any financing statement without the prior written consent of Agent and agrees that it will not do so without the prior written consent of Agent, subject to such Grantor's rights under Section 9-509(d) (2).

(m) No Restriction on Payments to Agent. No Grantor shall enter into any Contract that restricts or prohibits the grant of a security interest in Accounts, Chattel Paper, Instruments or payment intangibles or the proceeds of the foregoing to Agent.

4. LOCATION OF COLLATERAL. (a) Each Grantor represents and warrants to the Agent and the Lenders that: (A) Schedule I is a correct and complete list of the location of such Grantor's chief executive office, the location of its books

and records, the locations of the Collateral, and the locations of all of its other places of business; and (b) Schedule I correctly identifies any of such facilities and locations that are not owned by a Grantor and sets forth the names of the owners and lessors or sublessors of such facilities and locations. Each Grantor covenants and agrees that it will not (i) maintain any Collateral at any location other than those

locations listed for such Grantor on Schedule I, (ii) otherwise change or add to any of such locations, or (iii) change the location of its chief executive office from the location identified in Schedule I, unless it gives the Agent at least thirty (30) days' prior written notice thereof and executes any and all financing statements and other documents that the Agent reasonably requests in connection therewith. Without limiting the foregoing, each Grantor represents that all of its Inventory (other than Inventory in transit) is, and covenants that all of its Inventory will be, located either (a) on premises owned by such Grantor, (b) on premises leased by such Grantor, provided that the Agent has received an executed landlord waiver from the landlord of such premises in form and substance satisfactory to the Agent, (c) in a warehouse or with a bailee, provided that the Agent has received an executed bailee letter from the applicable Person in form and substance satisfactory to the Agent or (d) on premises leased by such Grantor provided that such Grantor has notified the Agent of the amount of the monthly rent for such premises and the Agent has made adequate reserves therefor.

5. JURISDICTION OF ORGANIZATION. Schedule II hereto identifies each Grantor's name as of the Closing Date as it appears in official filings in the state of its incorporation or other organization, the type of entity of each such Grantor (including corporation, partnership, limited partnership or limited liability company), organizational identification number issued by Grantor's state of incorporation or organization or a statement that no such number has been issued and the jurisdiction in which such Grantor is incorporated or organized. Each Grantor has only one state of incorporation or organization.

6. TITLE TO, LIENS ON, AND SALE AND USE OF COLLATERAL. Each Grantor represents and warrants to the Agent and the Lenders and agrees with the Agent and the Lenders that: (a) such Grantor has rights in and the power to transfer all of the Collateral free and clear of all Liens whatsoever, except for Permitted Liens; (b) the Agent's Liens in the Collateral will not be subject to any prior Lien except for those Liens identified in clauses (c), (d) and (e) of the definition of Permitted Liens; and (c) such Grantor will use, store, and maintain the Collateral with all reasonable care and will use such Collateral for lawful purposes only.

7. APPRAISALS. At such reasonable times as the Agent requests, each Grantor shall, at its expense, provide the Agent with appraisals or updates thereof of any or all of the Collateral from an appraiser, and prepared on a basis, satisfactory to the Agent, such appraisals and updates to include, without limitation, information required by applicable law and regulation and by the internal policies of the Lenders; provided, however, so long as no Default or Event of Default exists, no Grantor shall be responsible for the expense of more than two (2) such appraisals per calendar year.

8. ACCESS AND EXAMINATION. The Agent, accompanied by any Lender which so elects, may at all reasonable times during regular business hours (and at any time when a Default or Event of Default exists and is continuing) have access to, examine, audit, make extracts from or copies of and inspect any or all of the Grantors' records, files, and books of account and the Collateral, and discuss the Grantors' affairs with the Grantors' officers and management. Each Grantor will deliver to the Agent any instrument necessary for the Agent to obtain records from any service bureau maintaining records for such Grantor. The Agent may, and at the direction of the Required Lenders shall, at any time when a Default or Event of

Default exists, and at the Grantors' expense, make copies of all of the Grantors' books and records, or require each Grantor to deliver such copies to the Agent. The Agent may, without expense to the Agent, use such of the Grantors' respective personnel, supplies, and Real Estate as may be reasonably necessary for maintaining or enforcing the Agent's Liens. The Agent shall have the right, at any time, in the Agent's name or in the name of a nominee of the Agent, to verify the validity, amount or any other matter relating to the Accounts, Inventory, or other Collateral, by mail, telephone, or otherwise.

9. COLLATERAL REPORTING. Each Grantor shall provide the Agent with the documents specified in Section 5.2 of the Credit Agreement, each in form satisfactory to the Agent and at the times specified in Section 5.2 of the Credit Agreement, or more frequently if requested by the Agent. If any of a Grantor's records or reports of the Collateral are prepared by an accounting service or other agent, each Grantor hereby authorizes such service or agent to deliver such records, reports, and related documents to the Agent, for distribution to the Lenders.

10. ACCOUNTS.

(a) Each Grantor hereby represents and warrants to the Agent and the Lenders, with respect to such Grantor's Accounts, that: (i) each existing Account represents, and each future Account will represent, a bona fide sale or lease and delivery of goods by such Grantor, or rendition of services by such Grantor, in the ordinary course of such Grantor's business; (ii) each existing Account is, and each future Account will be, for a liquidated amount payable by the Account Debtor thereon on the terms set forth in the invoice therefor or in the schedule thereof delivered to the Agent, without any offset, deduction, defense, or counterclaim except those known to such Grantor and disclosed to the Agent and the Lenders pursuant to this Security Agreement; (iii) no payment will be received with respect to any Account, and no credit, discount, or extension, or agreement therefor will be granted on any Account, except as reported to the Agent and the Lenders in Borrowing Base Certificates delivered in accordance with this Security Agreement; (iv) each copy of an invoice delivered to the Agent by such Grantor will be a genuine copy of the original invoice sent to the Account Debtor named therein; and (v) all goods described in any invoice representing a sale of goods will have been delivered to the Account Debtor and all services of such Grantor described in each invoice will have been performed.

(b) No Grantor shall re-date any invoice or sale or make sales on extended dating beyond that customary in such Grantor's business or extend or modify any Account.

(c) No Grantor shall accept any note or other instrument (except a check or other instrument for the immediate payment of money) with respect to any Account without the Agent's written consent. If the Agent consents to the acceptance of any such instrument, it shall be considered as evidence of the Account and not payment thereof and such Grantor will promptly deliver such instrument to the Agent, endorsed by such Grantor to the Agent in a manner satisfactory in form and substance to the Agent.

Regardless of the form of presentment, demand, notice of protest with respect thereto, such Grantor shall remain liable thereon until such instrument is paid in full.

(d) With respect to any disputes and claims in excess of \$250,000 with any Account Debtor, each Grantor agrees to settle, contest, or adjust such dispute or claim at no expense to the Agent or any Lender. No discount, credit or allowance shall be granted to any such Account Debtor without the Agent's prior written consent, except

for discounts, credits and allowances made or given in the ordinary course of a Grantor's business when no Event of Default exists hereunder. The Agent may at all times when an Event of Default exists hereunder, settle or adjust disputes and claims directly with Account Debtors for amounts and upon terms which the Agent or the Required Lenders, as applicable, shall consider advisable and, in all cases, the Agent will credit such Grantor's Loan Account with the net amounts received by the Agent in payment of any Accounts.

(e) If an Account Debtor returns any Inventory to any Grantor when no Event of Default exists, then such Grantor shall promptly determine the reason for such return and shall issue a credit memorandum to the Account Debtor in the appropriate amount. In the event any Account Debtor returns Inventory to a Grantor when an Event of Default exists, such Grantor, upon the request of the Agent, shall: (i) hold the returned Inventory in trust for the Agent; (ii) segregate all returned Inventory from all of its other property; (iii) dispose of the returned Inventory solely according to the Agent's written instructions; and (iv) not issue any credits or allowances with respect thereto without the Agent's prior written consent. All returned Inventory shall be subject to the Agent's Liens thereon. Whenever any Inventory is returned, the related Account shall be deemed ineligible to the extent of the amount owing by the Account Debtor with respect to such returned Inventory and such returned Inventory shall not be Eligible Inventory.

11. COLLECTION OF ACCOUNTS; PAYMENTS.

(a) Until the Agent notifies the Grantors to the contrary, each Grantor shall make collection of all Accounts and other Collateral for the Agent, shall receive all payments as the Agent's trustee, and shall immediately deliver all payments in their original form duly endorsed in blank into a Payment Account established for the account of such Grantor at a Clearing Bank acceptable to the Agent, subject to a Blocked Account Agreement. On or prior to the date hereof, each Grantor shall establish a lock-box service for collections of Accounts at a Clearing Bank acceptable to the Agent and subject to a Blocked Account Agreement and other documentation acceptable to the Agent. Each Grantor shall instruct all Account Debtors to make all payments directly to the address established for such service. If, notwithstanding such instructions, any Grantor receives any proceeds of Accounts, it shall receive such payments as the Agent's trustee, and shall immediately deliver such payments to the Agent in their original form duly endorsed in blank or deposit them into a Payment Account, as the Agent may direct. All collections received in any lock-box or Payment Account or directly by any Grantor or the Agent, and all funds in any Payment Account or other account to which such collections are deposited shall be subject to the Agent's sole control and withdrawals by

such Grantor shall not be permitted. The Agent or the Agent's designee may, at any time after the occurrence of an Event of Default, notify Account Debtors that the Accounts have been assigned to the Agent and of the Agent's security interest therein, and may collect them directly and charge the collection costs and expenses to the Loan Account as a Revolving Loan. So long as an Event of Default has occurred and is continuing, each Grantor, at the Agent's request, shall execute and deliver to the Agent such documents as the Agent shall require to grant the Agent access to any post office box in which collections of Accounts are received.

(b) If sales of Inventory are made or services are rendered for cash, each Grantor shall immediately deliver to the Agent or deposit into a Payment Account the cash which such Grantor receives.

(c) All payments including immediately available funds

received by the Agent at a bank account designated by it, will be the Agent's sole property for its benefit and the benefit of the Lenders and will be credited to the Loan Account (conditional upon final collection) immediately upon receipt.

(d) In the event the Grantors repay all of the Obligations upon the termination of the Credit Agreement or upon acceleration of the Obligations, other than through the Agent's receipt of payments on account of the Accounts or proceeds of the other Collateral, such payment will be credited (conditioned upon final collection) to the Grantor's Loan Account upon the Agent's receipt of immediately available funds.

12. INVENTORY; PERPETUAL INVENTORY.

(a) Each Grantor represents and warrants to the Agent and the Lenders and agrees with the Agent and the Lenders that all of the Inventory owned by such Grantor is and will be held for sale or lease, or to be furnished in connection with the rendition of services, in the ordinary course of such Grantor's business, and is and will be fit for such purposes. Each Grantor will keep its Inventory in good and marketable condition, except for damaged or defective goods arising in the ordinary course of such Grantor's business. No Grantor will, without the prior written consent of the Agent, acquire or accept any Inventory on consignment or approval. Each Grantor agrees that all Inventory produced by such Grantor in the United States of America will be produced in accordance with the Federal Fair Labor Standards Act of 1938, as amended, and all rules, regulations, and orders thereunder. Each Grantor will conduct a physical or cycle count of the Inventory at least once per Fiscal Year, and after and during the continuation of an Event of Default, at such other times as the Agent requests. Each Grantor will maintain a perpetual inventory reporting system at all times. No Grantor will, without the Agent's written consent, sell any Inventory on a bill-and-hold, guaranteed sale, sale and return, sale on approval, consignment, or other repurchase or return basis.

(b) In connection with all Inventory financed by Letters of Credit, each Grantor will, at the Agent's request, instruct all suppliers, carriers, forwarders, customs brokers, warehouses or others receiving or holding cash, checks, Inventory, Documents

or Instruments in which the Agent holds a security interest to deliver them to the Agent and/or subject to the Agent's order, and if they shall come into such Grantor's possession, to deliver them, upon request, to the Agent in their original form. Each Grantor shall also, at the Agent's request, designate the Agent as the consignee on all bills of lading and other negotiable and non-negotiable documents.

13. ASSIGNED CONTRACTS. Each Grantor shall fully perform all of its obligations under each of the Assigned Contracts, and shall enforce all of its rights and remedies thereunder, in each case, as it deems appropriate in its business judgment; provided, however, that no Grantor shall take any action or fail to take any action with respect to its Assigned Contracts which would cause the termination of a material Assigned Contract. Without limiting the generality of the foregoing, each Grantor shall take all action necessary or appropriate to permit, and shall not take any action which would have any materially adverse effect upon, the full enforcement of all indemnification rights under its Assigned Contracts. Each Grantor shall deposit into the Payment Account or remit directly to the Agent for application to the Obligations in such order as the Required Lenders shall determine, all amounts received by such Grantor as indemnification or otherwise pursuant to its Assigned Contracts. If any Grantor shall fail after the Agent's demand to pursue diligently any right under its Assigned Contracts, or if an Event of Default then exists, the Agent may, and at the direction of the Required Lenders shall, directly enforce such right in its own or such Grantor's name and may enter into such settlements or other

agreements with respect thereto as the Agent or the Required Lenders, as applicable, shall determine. In any suit, proceeding or action brought by the Agent for the benefit of the Lenders under any Assigned Contract for any sum owing thereunder or to enforce any provision thereof, each Grantor shall indemnify and hold the Agent and Lenders harmless from and against all expense, loss or damage suffered by reason of any defense, setoff, counterclaims, recoupment, or reduction of liability whatsoever of the obligor thereunder arising out of a breach by such Grantor of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing from such Grantor to or in favor of such obligor or its successors. All such obligations of the Grantors shall be and remain enforceable only against the Grantors and shall not be enforceable against the Agent or the Lenders. Notwithstanding any provision hereof to the contrary, each Grantor shall at all times remain liable to observe and perform all of its duties and obligations under its Assigned Contracts, and the Agent's or any Lender's exercise of any of their respective rights with respect to the Collateral shall not release such Grantor from any of such duties and obligations. Neither the Agent nor any Lender shall be obligated to perform or fulfill any of the Grantors' duties or obligations under its Assigned Contracts or to make any payment thereunder, or to make any inquiry as to the nature or sufficiency of any payment or property received by it thereunder or the sufficiency of performance by any party thereunder, or to present or file any claim, or to take any action to collect or enforce any performance, any payment of any amounts, or any delivery of any property.

14. DOCUMENTS, INSTRUMENTS, AND CHATTEL PAPER. Each Grantor represents and warrants to the Agent and the Lenders that (a) all Documents, Instruments, and Chattel Paper describing, evidencing, or constituting Collateral, and all signatures and endorsements thereon, are and will be complete, valid, and genuine, and (b) all goods evidenced by such Documents, Instruments, Letter of Credit Rights and Chattel Paper are and will be owned by such Grantor, free and clear of all Liens other than Permitted Liens. If a Grantor

retains possession of any Chattel Paper or Instruments with Agent's consent, such Chattel Paper and Instruments shall be marked with the following legend: "This writing and the obligations evidenced or served hereby are subject to the security interest of Bank of America, N.A., as Agent, for the benefit of Agent and certain Lenders."

15. RIGHT TO CURE. The Agent may, in its discretion, and shall, at the direction of the Required Lenders, pay any amount or do any act required of any Grantor hereunder or under any other Loan Document in order to preserve or protect the Collateral or the Agent's Liens therein, and which such Grantor fails to pay or do, including payment of any judgment against such Grantor, any insurance premium, any warehouse charge, any finishing or processing charge, any landlord's or bailee's claim, and any other Lien upon or with respect to the Collateral; provided that any payments made by the Agent under this Section 15 shall not at any one time outstanding exceed 10% of the Borrowing Base but not in excess of the Maximum Revolver Amount; provided further, that the Majority Lenders may at any time revoke the Agent's authorization to make such payments. All payments that the Agent makes under this Section 15 and all out-of-pocket costs and expenses that the Agent pays or incurs in connection with any action taken by it hereunder shall be charged to such Grantor's Loan Account as a Revolving Loan. Any payment made or other action taken by the Agent under this Section 15 shall be without prejudice to any right to assert an Event of Default hereunder and to proceed thereafter as herein provided.

16. POWER OF ATTORNEY. Each Grantor hereby appoints the Agent and the Agent's designee as such Grantor's attorney, with power: (a) to endorse such Grantor's name on any checks, notes, acceptances, money orders, or other forms of payment or security that come into the Agent's or any Lender's possession; (b) to sign such Grantor's name on any invoice, bill of lading, warehouse receipt or other negotiable or non-negotiable Document constituting Collateral, on drafts against customers, on assignments of Accounts, on notices of assignment, financing statements and other public records and to file any such

financing statements by electronic means with or without a signature as authorized or required by applicable law or filing procedure; (c) so long as any Event of Default has occurred and is continuing, to notify the post office authorities to change the address for delivery of such Grantor's mail to an address designated by the Agent and to receive, open and dispose of all mail addressed to such Grantor and concurrent with such notification, the Agent shall, if not otherwise prohibited by applicable law, notify the Grantor of such action; (d) to send requests for verification of Accounts to customers or Account Debtors; (e) to complete in such Grantor's name or the Agent's name, any order, sale or transaction, obtain the necessary Documents in connection therewith, and collect the proceeds thereof; (f) to clear Inventory through customs in such Grantor's name, the Agent's name or the name of the Agent's designee, and to sign and deliver to customs officials powers of attorney in such Grantor's name for such purpose; (g) to the extent that such Grantor's authorization given in Section 3(g) of this Security Agreement is not sufficient, to file such financing statements with respect to this Security Agreement, with or without such Grantor's signature, or to file a photocopy of this Security Agreement in substitution for a financing statement, as the Agent may deem appropriate and to execute in such Grantor's name such financing statements and amendments thereto and continuation statements which may require such Grantor's signature; and (h) to do all things necessary to carry out the Credit Agreement and this Security Agreement. Each Grantor ratifies and approves all acts of such attorney. None

of the Lenders or the Agent nor their attorneys will be liable for any acts or omissions or for any error of judgment or mistake of fact or law except for their willful misconduct. This power, being coupled with an interest, is irrevocable until the Credit Agreement has been terminated and the Obligations have been fully satisfied.

17. THE AGENT'S AND LENDERS' RIGHTS, DUTIES AND LIABILITIES.

(a) Each Grantor assumes all responsibility and liability arising from or relating to the use, sale, license or other disposition of the Collateral. The Obligations shall not be affected by any failure of the Agent or any Lender to take any steps to perfect the Agent's Liens or to collect or realize upon the Collateral, nor shall loss of or damage to the Collateral release any Grantor from any of the Obligations. Following the occurrence and during the continuation of an Event of Default, the Agent may (but shall not be required to), and at the direction of the Required Lenders shall, without notice to or consent from any Grantor, sue upon or otherwise collect, extend the time for payment of, modify or amend the terms of, compromise or settle for cash, credit, or otherwise upon any terms, grant other indulgences, extensions, renewals, compositions, or releases, and take or omit to take any other action with respect to the Collateral, any security therefor, any agreement relating thereto, any insurance applicable thereto, or any Person liable directly or indirectly in connection with any of the foregoing, without discharging or otherwise affecting the liability of any Grantor for the Obligations or under the Credit Agreement or any other agreement now or hereafter existing between the Agent and/or any Lender and any Grantor.

(b) It is expressly agreed by Grantors that, anything herein to the contrary notwithstanding, each Grantor shall remain liable under each of its contracts and each of its licenses to observe and perform all the conditions and obligations to be observed and performed by it thereunder. Neither Agent nor any Lender shall have any obligation or liability under any contract or license by reason of or arising out of this Security Agreement or the granting herein of a Lien thereon or the receipt by Agent or any Lender of any payment relating to any contract or license pursuant hereto. Neither Agent nor any Lender shall be required or obligated in any manner to perform or fulfill any of the obligations of any Grantor under or pursuant to any contract or license, or to make any payment, or to make any inquiry as to the

nature or the sufficiency of any payment received by it or the sufficiency of any performance by any party under any contract or license, or to present or file any claims, or to take any action to collect or enforce any performance or the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

(c) Agent may at any time after a Default or an Event of Default has occurred and is continuing (or if any rights of set-off (other than set-offs against an Account arising under the contract giving rise to the same Account) or contra accounts may be asserted with respect to the following), without prior notice to any Grantor, notify Account Debtors, and other Persons obligated on the Collateral that Agent has a security interest therein, and that payments shall be made directly to Agent, for itself and the benefit of Lenders. Upon the request of Agent, each Grantor shall so notify Account

Debtors and other Persons obligated on the Collateral. Once any such notice has been given to any Account Debtor or other Person obligated on the Collateral, no Grantor shall give any contrary instructions to such Account Debtor or other Person without Agent's prior written consent.

(d) Agent may at any time in Agent's own name or in the name of a Grantor communicate with Account Debtors, parties to Contracts and obligors in respect of Instruments to verify with such Persons, to Agent's satisfaction, the existence, amount and terms of Accounts, payment intangibles, Instruments or Chattel Paper. If a Default or Event of Default shall have occurred and be continuing, each Grantor, at its own expense, shall cause the independent certified public accountants then engaged by such Grantor to prepare and deliver to Agent and each Lender at any time and from time to time promptly upon Agent's request the following reports with respect to such Grantor: (i) a reconciliation of all Accounts; (ii) an aging of all Accounts; (iii) trial balances; and (iv) a test verification of such Accounts as Agent may request. Each Grantor, at its own expense, shall deliver to Agent the results of each physical verification, if any, which such Grantor may in its discretion have made, or caused any other Person to have made on its behalf, of all or any portion of its Inventory.

18. PATENT, TRADEMARK AND COPYRIGHT COLLATERAL.

(a) No Grantor has any interest in, or title to, any patent, material trademark or copyright except as set forth in Schedule III hereto. This Security Agreement is effective to create a valid and continuing Lien on and, upon filing of the Notice of Security Interest in Copyrights with the United States Copyright Office and filing of both the Notice of Security Interest in Patents and the Notice of Security Interest in Trademarks with the United States Patent and Trademark Office, perfected Liens in favor of Agent on each Grantor's patents, material trademarks and copyrights and such perfected Liens are enforceable as such as against any and all creditors of and purchasers from such Grantor. Upon filing of the Notice of Security Interest in Copyrights, in the form of Schedule IV hereto, with the United States Copyright Office and filing of both the Notice of Security Interest in Patents, in the form of Schedule V hereto, and the Notice of Security Interest in Trademarks, in the form of Schedule VI hereto, with the United States Patent and Trademark Office and the filing of appropriate financing statements, all action necessary or desirable to protect and perfect Agent's Lien on such Grantor's patents, material trademarks or copyrights shall have been duly taken.

(b) [Reserved]

(c) In no event shall any Grantor, either directly or through any agent, employee, licensee or designee, file an application for the registration of any patent, material trademark or copyright with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency without giving Agent prior written notice thereof, and, upon request of Agent, each Grantor shall execute and deliver any and all Notices of Security Interest in Copyrights, Notices of Security Interest in Patents and/or Notices of Security Interest in Trademarks as Agent may request to

evidence Agent's Lien on such patent, material trademark or copyright, and the General Intangibles of such Grantor relating thereto or represented thereby.

(d) Each Grantor shall take all actions necessary or requested by Agent to maintain and pursue each application, to obtain the relevant registration and to maintain the registration of each of the patents, material trademarks and copyrights (now or hereafter existing), including the filing of applications for renewal, affidavits of use, affidavits of noncontestability and opposition and interference and cancellation proceedings.

(e) In the event that any of the patent, trademark or copyright Collateral is infringed upon, or misappropriated or diluted by a third party, the affected Grantor shall, unless it shall reasonably determine that such patent, trademark or copyright Collateral is in no way material to the conduct of its business or operations, promptly sue for infringement, misappropriation or dilution and to recover any and all damages for such infringement, misappropriation or dilution, and shall take such other actions as Agent shall deem appropriate under the circumstances to protect such patent, trademark or copyright Collateral.

19. INDEMNIFICATION. In any suit, proceeding or action brought by Agent or any Lender relating to any Collateral for any sum owing with respect thereto or to enforce any rights or claims with respect thereto, each Grantor will save, indemnify and keep Agent and Lenders harmless from and against all expense (including reasonable attorneys' fees and expenses), loss or damage suffered by reason of any defense, setoff, counterclaim, recoupment or reduction of liability whatsoever of the Account Debtor or other Person obligated on the Collateral, arising out of a breach by such Grantor of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing to, or in favor of, such obligor or its successors from such Grantor, except in the case of Agent or any Lender, to the extent such expense, loss, or damage is attributable solely to the gross negligence or willful misconduct of Agent or such Lender as finally determined by a court of competent jurisdiction. All such obligations of such Grantor shall be and remain enforceable against and only against such Grantor and shall not be enforceable against Agent or any Lender.

20. LIMITATION ON LIENS ON COLLATERAL. No Grantor shall create, permit or suffer to exist, and each Grantor shall defend the Collateral against, and take such other action as is necessary to remove, any Lien on the Collateral except Permitted Liens, and shall defend the right, title and interest of Agent and Lenders in and to any of such Grantor's rights under the Collateral against the claims and demands of all Persons whomsoever.

21. [Reserved]

22. REMEDIES; RIGHTS UPON DEFAULT.

(a) In addition to all other rights and remedies granted to it under this Security Agreement, the Credit Agreement, the other Loan Documents and under any other instrument or agreement securing, evidencing or relating to any of the Obligations, if any

Event of Default shall have occurred and be continuing, Agent may exercise all rights and remedies of a secured party under the UCC. Without limiting the generality of the foregoing, each Grantor expressly agrees that in any such event Agent, without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon such Grantor or any other Person (all and each of which demands, advertisements and notices are hereby expressly waived to the maximum extent permitted by the UCC and other applicable law), may forthwith enter upon the premises of such Grantor where any Collateral is located through self-help, without judicial process, without first obtaining a final judgment or giving such Grantor or any other Person notice and opportunity for a hearing on Agent's claim or action and may collect, receive, assemble, process, appropriate and realize upon the Collateral, or any part thereof, and may forthwith sell, lease, license, assign, give an option or options to purchase, or sell or otherwise dispose of and deliver said Collateral (or contract to do so), or any part thereof, in one or more parcels at a public or private sale or sales, at any exchange at such prices as it may deem acceptable, for cash or on credit or for future delivery without assumption of any credit risk. Agent or any Lender shall have the right upon any such public sale or sales and, to the extent permitted by law, upon any such private sale or sales, to purchase for the benefit of Agent and Lenders, the whole or any part of said Collateral so sold, free of any right or equity of redemption, which equity of redemption each Grantor hereby releases. Such sales may be adjourned and continued from time to time with or without notice. Agent shall have the right to conduct such sales on each Grantor's premises or elsewhere and shall have the right to use such Grantor's premises without charge for such time or times as Agent deems necessary or advisable.

(b) Each Grantor further agrees, at Agent's request, to assemble the Collateral and make it available to Agent at a place or places designated by Agent which are reasonably convenient to Agent and such Grantor, whether at such Grantor's premises or elsewhere. Until Agent is able to effect a sale, lease, or other disposition of Collateral, Agent shall have the right to hold or use Collateral, or any part thereof, to the extent that it deems appropriate for the purpose of preserving Collateral or its value or for any other purpose deemed appropriate by Agent. Agent shall have no obligation to any Grantor to maintain or preserve the rights of such Grantor as against third parties with respect to Collateral while Collateral is in the possession of Agent. Agent may, if it so elects, seek the appointment of a receiver or keeper to take possession of Collateral and to enforce any of Agent's remedies (for the benefit of Agent and Lenders), with respect to such appointment without prior notice or hearing as to such appointment. Agent shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale to the Obligations as provided in the Credit Agreement, and only after so paying over such net proceeds, and after the payment by Agent of any other amount required by any provision of law, need Agent account for the surplus, if any, to such Grantor. To the maximum extent permitted by applicable law, each Grantor waives all claims, damages, and demands against Agent or any Lender arising out of the repossession, retention or sale of the Collateral except such as arise solely out of the gross negligence or willful misconduct of Agent or such Lender as finally determined by a court of competent jurisdiction. Each Grantor agrees that ten (10) days prior notice by Agent of the time and

place of any public sale or of the time after which a private sale may

take place is reasonable notification of such matters. Each Grantor shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all Obligations, including any attorneys' fees or other expenses incurred by Agent or any Lender to collect such deficiency.

(c) Except as otherwise specifically provided herein, each Grantor hereby waives presentment, demand, protest or any notice (to the maximum extent permitted by applicable law) of any kind in connection with this Security Agreement or any Collateral.

(d) To the extent that applicable law imposes duties on the Agent to exercise remedies in a commercially reasonable manner, each Grantor acknowledges and agrees that it is not commercially unreasonable for the Agent (a) to fail to incur expenses reasonably deemed significant by the Agent to prepare Collateral for disposition or otherwise to complete raw material or work in process into finished goods or other finished products for disposition, (b) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (c) to fail to exercise collection remedies against Account Debtors or other Persons obligated on Collateral or to remove Liens on or any adverse claims against Collateral, (d) to exercise collection remedies against Account Debtors and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (e) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (f) to contact other Persons, whether or not in the same business as such Grantor, for expressions of interest in acquiring all or any portion of such Collateral, (g) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature, (h) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capacity of doing so, or that match buyers and sellers of assets, (i) to dispose of assets in wholesale rather than retail markets, (j) to disclaim disposition warranties, such as title, possession or quiet enjoyment, (k) to purchase insurance or credit enhancements to insure the Agent against risks of loss, collection or disposition of Collateral or to provide to the Agent a guaranteed return from the collection or disposition of Collateral, or (l) to the extent deemed appropriate by the Agent, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Agent in the collection or disposition of any of the Collateral. Each Grantor acknowledges that the purpose of this Section 22(d) is to provide non-exhaustive indications of what actions or omissions by the Agent would not be commercially unreasonable in the Agent's exercise of remedies against the Collateral and that other actions or omissions by the Agent shall not be deemed commercially unreasonable solely on account of not being indicated in this Section 22(d). Without limitation upon the foregoing, nothing contained in this Section 22(d) shall be construed to grant any rights to any Grantor or to impose any duties on Agent that would not have been granted or imposed by this Security Agreement or by applicable law in the absence of this Section 22(d).

23. GRANT OF LICENSE TO USE INTELLECTUAL PROPERTY. For the purpose of enabling Agent to exercise rights and remedies under Section 22 hereof (including, without limiting the terms of Section 22 hereof, in order to take possession of, hold, preserve, process, assemble, prepare for sale, market for sale, sell or otherwise dispose of Collateral) at such time as Agent shall be lawfully entitled to exercise such rights and remedies, each Grantor hereby grants to Agent, for the benefit of Agent and Lenders, an irrevocable,

nonexclusive license (exercisable without payment of royalty or other compensation to any Grantor) to use, license or sublicense any Intellectual Property now owned or hereafter acquired by any Grantor, and wherever the same may be located, and including in such license access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof.

24. LIMITATION ON AGENT'S AND LENDERS' DUTY IN RESPECT OF COLLATERAL. Agent and each Lender shall use reasonable care with respect to the Collateral in its possession or under its control. Neither Agent nor any Lender shall have any other duty as to any Collateral in its possession or control or in the possession or control of any agent or nominee of Agent or such Lender, or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto.

25. MISCELLANEOUS.

(a) Reinstatement. This Security Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against any Grantor for liquidation or reorganization, should any Grantor become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of any Grantor's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Obligations, whether as a "voidable preference," "fraudulent conveyance," or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

(b) Notices. Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the parties by any other party, or whenever any of the parties desires to give and serve upon any other party any communication with respect to this Security Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing and shall be given in the manner, and deemed received, as provided for in the Credit Agreement.

(c) Severability. Whenever possible, each provision of this Security Agreement shall be interpreted in a manner as to be effective and valid under applicable law, but if any provision of this Security Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Security Agreement. This Security Agreement is to be read, construed and applied together with the Credit Agreement and the other Loan Documents which, taken together, set forth the complete understanding and agreement of Agent, Lenders and the Grantors with respect to the matters referred to herein and therein.

(d) No Waiver; Cumulative Remedies. Neither Agent nor any Lender shall by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder, and no waiver shall be valid unless in writing, signed by Agent and then only to the extent therein set forth. A waiver by Agent of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Agent would otherwise have had on any future occasion. No failure to exercise nor any delay in exercising on the part of Agent or any Lender, any right, power or privilege hereunder, shall operate as a

waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or future exercise thereof or the exercise of any other right, power or privilege. The rights and remedies hereunder provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights and remedies provided by law. None of the terms or provisions of this Security Agreement may be waived, altered, modified or amended except by an instrument in writing, duly executed by Agent and the Grantors.

(e) Limitation by Law. All rights, remedies and powers provided in this Security Agreement may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of this Security Agreement are intended to be subject to all applicable mandatory provisions of law that may be controlling and to be limited to the extent necessary so that they shall not render this Security Agreement invalid, unenforceable, in whole or in part, or not entitled to be recorded, registered or filed under the provisions of any applicable law.

(f) Termination of this Security Agreement. Subject to Section 25(a) hereof, this Security Agreement shall terminate upon the satisfactory collateralization of all Letters of Credit and the payment in full in cash of all other Obligations (other than indemnification Obligations as to which no claim has been asserted).

(g) Successors and Assigns. This Security Agreement and all obligations of the Grantors hereunder shall be binding upon the successors and assigns of each Grantor (including any debtor-in-possession on behalf of any Grantor) and shall, together with the rights and remedies of Agent, for the benefit of Agent and Lenders, hereunder, inure to the benefit of Agent and Lenders, all future holders of any instrument evidencing any of the Obligations and their respective successors and assigns. No sales of participations, other sales, assignments, transfers or other dispositions of any agreement governing or instrument evidencing the Obligations or any portion thereof or interest therein shall in

any manner affect the Lien granted to Agent, for the benefit of Agent and Lenders, hereunder. No Grantor may assign, sell, hypothecate or otherwise transfer any interest in or obligation under this Security Agreement.

(h) Counterparts. This Security Agreement may be authenticated in any number of separate counterparts, each of which shall collectively and separately constitute one and the same agreement. This Security Agreement may be authenticated by manual signature, facsimile or, if approved in writing by Agent, electronic means, all of which shall be equally valid.

(i) Governing Law. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN ANY OF THE LOAN DOCUMENTS, IN ALL RESPECTS, INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, THIS SECURITY AGREEMENT AND THE OBLIGATIONS ARISING HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NORTH CAROLINA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN THAT STATE, AND ANY APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. EACH GRANTOR HEREBY CONSENTS AND AGREES THAT THE STATE OR FEDERAL COURTS LOCATED IN MECKLENBURG COUNTY, CITY OF CHARLOTTE, SHALL HAVE EXCLUSIVE JURISDICTION TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN ANY GRANTOR, AGENT AND LENDERS PERTAINING TO THIS SECURITY AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR TO ANY MATTER ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, PROVIDED, THAT AGENT, LENDERS AND GRANTORS ACKNOWLEDGE THAT ANY APPEALS FROM THOSE COURTS MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE OF

MECKLENBURG COUNTY, CITY OF CHARLOTTE, AND, PROVIDED, FURTHER, NOTHING IN THIS SECURITY AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE AGENT FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF AGENT. EACH GRANTOR EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND EACH GRANTOR HEREBY WAIVES ANY OBJECTION WHICH IT MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. EACH GRANTOR HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS, COMPLAINT AND OTHER PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AND AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINTS AND OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO SUCH GRANTOR AT THE ADDRESS SET FORTH IN SECTION 14.8 OF THE CREDIT AGREEMENT AND THAT SERVICE SO MADE

SHALL BE DEEMED COMPLETED UPON THE EARLIER OF ACTUAL RECEIPT THEREOF OR THREE (3) DAYS AFTER DEPOSIT IN THE U.S. MAILS, PROPER POSTAGE PREPAID.

(j) Waiver of Jury Trial. BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT DISPUTES ARISING HEREUNDER OR RELATING HERETO BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, AMONG AGENT, LENDERS, AND THE GRANTORS ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED IN CONNECTION WITH, THIS SECURITY AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO.

(k) Section Titles. The Section titles contained in this Security Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

(l) No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Security Agreement. In the event an ambiguity or question of intent or interpretation arises, this Security Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Security Agreement.

(m) Advice of Counsel. Each of the parties represents to each other party hereto that it has discussed this Security Agreement and, specifically, the provisions of Section 25(i) and Section 25(j), with its counsel.

(n) Benefit of Lenders. All Liens granted or contemplated hereby shall be for the benefit of Agent and Lenders, and all proceeds or payments realized from Collateral in accordance herewith shall be applied to the Obligations in accordance with the terms of the Credit Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Security Agreement to be executed and delivered by its duly authorized officer as of the

date first set forth above.

GRANTORS:

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

AGENT:

Bank of America, N.A., as the Agent

By: DAVID M. ANDERSON

Name: DAVID M. ANDERSON

Title: SVP

EXHIBIT (10g)

EMPLOYMENT AGREEMENT

BY AND BETWEEN

BRIAN R. PARKE

AND

UNIFI, INC.

Effective January 23, 2002

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is effective January 23, 2002 (the "Effective Date") by and between UNIFI, INC., a New York Corporation (the "Company"), and BRIAN R. PARKE (the "Executive");

WITNESSETH:

WHEREAS, Executive is presently serving as President and Chief Executive Officer of the Company and is an integral part of the Company's management; and

WHEREAS, Executive became an employee of the Company in 1984, served as President of Unifi Textured Yarns Europe (UTYE) in Ireland from October 1997 until January 20, 1999, when he moved to the U.S. and became President and Chief Operating Officer of the Company; and

WHEREAS, Executive was elected a Director of the Company by the Board of Directors on July 22, 1999, and by the Shareholders on October 21, 1999, and was elected President and Chief Executive Officer of the Company in January 2000; and

WHEREAS, Executive, through his knowledge and experience in the textile business is exceptionally well qualified, fitted and equipped to continue to serve the Company as its President and Chief Executive Officer; and

WHEREAS, the Company deems it to be in its best interest to retain the unique experience, ability and leadership of the Executive as its President and Chief Executive Officer in accordance with the terms of this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the Company and the Executive hereby agree as follows:

1. EMPLOYMENT. The Company hereby agrees to continue to employ the Executive, and the Executive agrees to continue to serve the Company, in the capacities described herein during the Period of Employment (as defined in Section 2 of this Agreement), in accordance with the terms and conditions of this Agreement.

2. PERIOD OF EMPLOYMENT. The term "Period of Employment" shall mean the period which commences on the Effective Date and, unless earlier terminated pursuant to Section 6, ends on December 31, 2005; provided, however, that the Period of Employment shall automatically be extended on a day by day basis so that the remaining term of the Period of Employment shall always be three (3) years until such date as either the Company or the Executive shall have terminated such automatic extension provision by giving written notice to the other.

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3. DUTIES DURING THE PERIOD OF EMPLOYMENT.

3.1 DUTIES. During the Period of Employment, the Executive shall be employed as the President and Chief Executive Officer of the Company with overall charge and responsibility for the business and affairs of the Company. The Executive shall report to the Company's Board of Directors (the "Board") through its Chairman (the "Chairman") and shall perform such duties as the Executive shall reasonably be directed to perform by the Board.

3.2 SCOPE. During the Period of Employment, the Executive shall devote substantially all of his business time and attention to the business and affairs of the Company. It shall not be a violation of this Agreement for the Executive to (I) serve on corporate, civic or charitable boards or committees, (ii) deliver lectures, fulfill speaking engagements or teach occasional courses or seminars at educational institutions, or (iii) manage personal investments, so long as such activities under clauses (I), (ii) and (iii) do not interfere, in any substantial respect, with the Executive's responsibilities hereunder.

4. COMPENSATION AND OTHER PAYMENTS.

4.1 SALARY. During the Period of Employment, the Company shall pay the Executive an annualized base salary of not less than seven hundred fifty thousand dollars (\$750,000.00) per year (the "Base Salary"). The Executive's Base Salary shall be paid in accordance with the Company's payroll policy. The Compensation Committee of the Board ("Committee") shall review the Base Salary on an annual basis during the Period of Employment. Based upon such reviews, the Committee may increase, but shall not decrease, the Base Salary. Any increase in Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement.

4.2 OTHER COMPENSATION. The Board may at its discretion award the

Executive other additional compensation and bonuses during the Period of Employment.

5. OTHER EXECUTIVE BENEFITS.

5.1 REGULAR REIMBURSED BUSINESS EXPENSES. The Company shall promptly reimburse the Executive for all expenses and disbursements reasonably incurred by the Executive in the performance of his duties hereunder during the Period of Employment.

5.2 BENEFIT PLANS. The Executive and his eligible family members shall be entitled to participate on terms no less favorable to the Executive than the terms offered to other senior executives of the Company in any group and/or executive life, hospitalization or disability insurance plan, health program, vacation policy, 401(k) plan and similar benefit plans (qualified, non-qualified and supplemental) or other fringe benefits (it being understood that items such as stock options are not fringe benefits) of the Company (collectively referred to as the "Benefits"). Anything contained herein to the contrary notwithstanding, the Benefits described herein shall not duplicate benefits made available to the Executive pursuant to any other provision of this Agreement.

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6. TERMINATION.

6.1 DEATH OR DISABILITY. This Agreement and the Period of Employment shall terminate automatically upon the Executive's death. If the Company determines in good faith that the Disability of the Executive has occurred (pursuant to the definition of "Disability" set forth below), it may give to the Executive written notice of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the thirtieth (30th) day after receipt by the Executive of such notice given at any time after a period of one hundred twenty (120) consecutive days of Disability or a period of one hundred eighty (180) days of Disability within any twelve (12) consecutive months, and, in either case, while such Disability is continuing ("Disability Effective Date"); provided that, within the thirty (30) days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" means the Executive's inability to substantially perform his duties hereunder, with reasonable accommodation as reasonably determined by the Board. Until the Disability Effective Date, the Executive shall be entitled to all compensation provided for under Section 4 hereof. It is understood that nothing in this Section 6.1 shall serve to limit the Company's obligations under Section 7.2 hereof.

6.2 BY THE COMPANY FOR CAUSE. During the Period of Employment, the Company may terminate the Executive's employment immediately for "Cause." For purposes of this Agreement, "Cause" shall mean that (i) the Executive has been convicted of a felony involving theft or moral turpitude, or (ii) engaged in conduct that constitutes willful gross neglect or willful gross misconduct with respect to employment duties which results in material economic harm to the Company; provided, however, that for the purposes of determining whether conduct constitutes willful gross misconduct, no act on Executive's part shall be considered "willful" unless it is done by the Executive in bad faith and without reasonable belief that the Executive's action was in the best interests of the Company. Notwithstanding the foregoing, the Company may not terminate the Executive's employment for Cause unless (i) a determination that Cause exists is made and approved by a majority of the Company's Board of Directors, (ii) the Executive is given at least ten (10) days written notice of the Board meeting called to make such determination, and (iii) the Executive is given the opportunity to address such meeting.

6.3 BY EXECUTIVE FOR GOOD REASON. During the Period of Employment, the Executive's employment hereunder may be terminated by the Executive for Good Reason upon fifteen (15) business days' written notice. For purposes of this

Agreement, "Good Reason" shall mean, without the Executive's consent:

6.3.1. Assignment to the Executive of any duties inconsistent in any material respect with the Executive's position (including status, offices, titles and reporting relationships), authority, duties or responsibilities as contemplated by Section 3 of this Agreement, or any other action by the Company which results in a significant diminution in such position, authority, duties or responsibilities, excluding any isolated and inadvertent action not taken in bad faith and which is remedied by the Company within ten business (10) days after receipt of notice thereof given by the Executive;

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6.3.2. Any failure by the Company to comply with any of the provisions of Section 4 or 5 of this Agreement other than an isolated and inadvertent failure not committed in bad faith and which is remedied by the Company within ten business (10) days after receipt of notice thereof given by the Executive;

6.3.3. Delivery by the Company of a notice discontinuing the automatic extension provision of Section 2 of this Agreement; or

6.3.4. Any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement.

6.4 OTHER THAN FOR CAUSE OR GOOD REASON. The Executive or the Company may terminate this Agreement for any reason other than for Good Reason or Cause, respectively, upon the Executive providing the Company with ninety (90) days written notice and upon the Company providing the Executive thirty (30) days written notice. If the Executive terminates the Agreement for any reason, he shall have no liability to the Company or its subsidiaries or affiliates as a result thereof. If the Company terminates the Agreement, or if the Agreement terminates because of the death of the Executive, the obligations of the Company shall be as set forth in Section 7 hereof.

6.5 NOTICE OF TERMINATION. A Notice of Termination shall communicate any termination by the Company or by the Executive to the other party hereto given in accordance with Section 13.b. of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (I) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail, if necessary, the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date. The failure by the Executive or Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of the basis for termination shall not waive any right of such party hereunder or preclude such party from asserting such fact or circumstance in enforcing his or its rights hereunder.

6.6 DATE OF TERMINATION. "Date of Termination" means the date specified in the Notice of Termination; provided, however, that if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

7. OBLIGATIONS OF THE COMPANY UPON TERMINATION. The following provisions describe the obligations of the Company to the Executive under this Agreement upon termination of his employment. However, except as explicitly provided in this Agreement, nothing in this Agreement shall limit or otherwise adversely affect any rights which the Executive may have under applicable law, under any other agreement with the Company, or under any compensation or benefit plan, program, policy or practice of the Company.

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7.1 TERMINATION BY THE COMPANY FOR CAUSE OR RESIGNATION WITHOUT GOOD REASON. In the event this Agreement terminates by reason of the termination of the Executive's Employment by the Company for Cause or by reason of the resignation of the Executive other than for Good Reason, the Company shall pay to the Executive all Accrued Obligations (as defined below) in a lump sum in cash within thirty (30) days after the Date of Termination. "Accrued Obligations" shall mean, as of the Date of Termination, the sum of (A) the Executive's Base Salary through the Date of Termination to the extent not theretofore paid, (B) the amount of any bonus, incentive compensation, and other cash compensation accrued by the Executive as of the Date of Termination to the extent not theretofore paid and (C) any vacation pay, expense reimbursements and other cash entitlements accrued by the Executive as of the Date of Termination to the extent not theretofore paid.

7.2 RESIGNATION WITH GOOD REASON; TERMINATION WITHOUT CASE; DISABILITY. If (i) the Company shall terminate the Executive's employment other than for Cause, (ii) the Executive shall terminate his employment at any time for Good Reason or (iii) the Executive's employment shall terminate due to Disability, the Executive shall receive in addition to the Accrued Obligations, the following:

7.2.1 For the remainder of the Period of Employment (determined without regard to the termination thereof pursuant to Section 6) or for three (3) years (which ever is longer), the Company shall continue to pay the Executive the Base Salary in accordance with Section 4.1 of this Agreement as if the Executive's employment had not been terminated.

7.2.2 Immediate full vesting in (i.e. full exercisability for) any stock options previously granted to the Executive by the Company and not yet vested as of the Date of Termination;

7.2.3 Continued exercisability, through the end of their respective full original terms, for all vested options, whether previously vested or vesting under this subsection 7.2;

7.2.4 Immediate full vesting in all other otherwise unvested shares of restricted stock of the Company or other equity-based awards (if any) previously awarded to the Executive, with immediate termination of all restrictions on such awards;

7.2.5 Receipt of any other compensation and Benefits accrued or earned and vested (if applicable) by the Executive as of the Date of Termination (but not duplicative of the Accrued Obligations);

7.2.6 For the remainder of the Period of Employment (determined without regard to the termination thereof pursuant to Section 6) or for three (3) years (which ever is longer), the Company shall continue health, prescription drug, dental, disability and life insurance benefits to the Executive and/or the Executive's eligible family members at least equal to those which would have been provided to them in accordance with Section 5.2 of this Agreement if the Executive's employment had not been terminated; and

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7.2.7 All reasonable relocation costs of the Executive and his family back to Ireland, which relocation costs shall be grossed-up for any applicable taxes.

7.3 COBRA RIGHTS. It is understood that the Executive's rights under this Section 7 are in lieu of all other rights which the Executive may otherwise have had upon termination of employment under this Agreement; provided, however,

that no provision of this Agreement is intended to adversely affect the Executive's rights under the Consolidate Omnibus Budget Reconciliation Act of 1985.

8. DISCLOSURE OF CONFIDENTIAL INFORMATION.Executive agrees that:

(A) During the term of this Agreement and for a period of five (5) years after his Date of Termination, he will not disclose or make available to any person or other entity any trade secrets, Confidential Information, or "know-how" relating to the Company's, its affiliates' and subsidiaries', businesses without written authority from the Board, unless he is compelled to disclose it by judicial process.

Confidential Information - shall mean all information about the Company, its affiliates or subsidiaries, or relating to any of their products, services or any phase of their operations, not generally known to their Competitors or which is not public information, which Executive knows or acquired knowledge of during the term of his employment with the Company.

(B) Documents - under no circumstances shall Executive remove from the Company' offices any of the Company's books, records, documents, files, computer discs or information, reports, presentations, customer lists, or any copies of such documents for use outside of his employment with the Company, except as specifically authorized in writing by the Board.

9. NON-COMPETE. Executive agrees that during the Period of Employment and after his Date of Termination for as long as he is receiving the Base Salary payments provided for in Section 7 of this Agreement that he will not, directly or indirectly:

(A) Seek employment or consulting arrangements with or offer advice, suggestions, or input to any Competitor of the Company; or

(B) 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 of the Company, unless approved by the Board; or

(C) Solicit, induce, or attempt to induce any past or current customer of the Company (a) to cease doing business in whole or in part with or through the Company; or (b) to do business with any other person, firm, partnership,

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corporation, or other entity which sales products or performs services materially similar to or competitive with those provided by the Company; or

(D) Initiate, encourage or solicit for employment any person who is now employed or during the term of this Agreement becomes employed by the Company (or whose activities or services are dedicated to the Company).

Competitor - shall mean any individual, partnership, joint venture, firm, corporation, limited liability company, business trust, association, trust or other enterprise (whether or not incorporated) engaged in the business of developing, producing, manufacturing, selling and/or distributing a product or providing services similar to any product produced or service provided by the Company, its affiliates or subsidiaries.

10. REMEDY FOR VIOLATION OF SECTIONS 8 and 9. The Executive

acknowledges that he has been given adequate consideration and benefits to support the enforcement of the provisions provided for in Sections 8 and 9 of this Agreement and that the Company has no adequate remedy at law and will be irreparably harmed if the Executive breaches or threatens to breach the provisions of Sections 8 or 9 of this Agreement, and therefore, agrees that the Company shall be entitled to injunctive relief to prevent any breach or threatened breach of such Sections and that the Company shall be entitled to specific performance of the terms of such Sections in addition to any other legal or equitable remedy it may have. Nothing in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies at law or in equity that it may have or any other rights that it may have under any other agreement.

11. ARBITRATION. Any dispute or controversy between the Company and the Executive, whether arising out of or relating to this Agreement, the breach of this Agreement, or otherwise, shall be settled by arbitration administered by the American Arbitration Association ("AAA") in accordance with its Commercial Arbitration Rules then in effect, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Any arbitration shall be held before a single arbitrator who shall be selected by the mutual agreement of the Company and the Executive, unless the parties are unable to agree to an arbitrator, in which case, the arbitrator will be selected under the procedures of the AAA. The arbitrator shall have the authority to award any remedy or relief that a court of competent jurisdiction could order or grant, including, without limitation, the issuance of an injunction. However, either party may, without inconsistency with this arbitration provision, apply to any court having jurisdiction over such dispute relief until the arbitration award is rendered or the controversy is otherwise resolved. Except as necessary in court proceedings to enforce this arbitration provision or an award rendered hereunder, or to obtain interim relief, neither a party nor an arbitrator may disclose the existence, content or results of any arbitration hereunder without the prior written consent of the Company and the Executive. The Company and the Executive acknowledge that this Agreement evidences a transaction involving interstate commerce. Notwithstanding any choice of law provision included in this Agreement, the United States Federal Arbitration Act shall govern the interpretation and enforcement of this arbitration provision. The arbitration proceeding shall be conducted in Greensboro, North Carolina or such

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other location to which the parties may agree. The Company shall pay the costs of any arbitrator appointed hereunder.

12. SUCCESSORS.

a. This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's heirs and legal representatives.

b. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

c. As used in this Agreement, the term "Company" shall include any successor to the Company's business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

13. MISCELLANEOUS.

a. This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, without reference to principles of conflicts of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

b. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party, by overnight courier, or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:
Brian R. Parke
1510 Edgedale Road
Greensboro, NC 27408

If to the Company:
Unifi, Inc.
7201 W. Friendly Avenue
Greensboro, NC 27410
Attn: General Counsel (currently Charles F. McCoy)

or to such other address as either of the parties shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

c. None of the provisions of this Agreement shall be deemed to impose a penalty.

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d. The obligations contained in this Agreement (specifically including Sections 8 and 9) shall survive the termination of this Agreement. Additionally, the Executive acknowledges that the restrictions and covenants contained in Section 9 are reasonable and necessary to protect the legitimate business interests of the Company and will not impose an economic hardship on the Executive. 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 herefrom. Furthermore, in lieu of such illegal, invalid or unenforceable provision, the same shall be reformed and modified automatically by the Compensation Committee as a part hereof to be as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

e. Any party's failure to insist upon strict compliance with any provision hereof shall not be deemed to be a waiver of such provision or any other provision hereof.

f. This Agreement supersedes any prior employment agreement or understandings, written or oral between the Company and the Executive and contains the entire understanding of the Company and the Executive with respect to the subject matter hereof.

g. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the dates written below.

UNIFI, INC.

By: CHARLES F. MCCOY

Charles F. McCoy
Vice President, Secretary & General Counsel

By: DONALD F. ORR

Donald F. Orr,
Chairman of the Compensation Committee
of the Board of Directors

BRIAN R. PARKE

BRIAN R. PARKE (Seal)

EXHIBIT (10i)

CHANGE OF CONTROL AGREEMENT

THIS CHANGE OF CONTROL AGREEMENT ("Agreement") between UNIFI, INC., a New York Corporation (the "Company"), and Willis C. Moore, III ("Executive") effective the 23TH day of January, 2002 (the "Effective Date").

WITNESSETH:

WHEREAS, The Executive is a Executive Vice President, Chief Financial Officer of the Company and is considered as an integral part of the Company's management; and

WHEREAS, the Company's Board of Directors (hereinafter sometimes referred to as the "Board") considers the establishment and maintenance of a sound and vital management to be essential in protecting and enhancing the best interests of the Company and its Shareholders, recognizes that the possibility of a Change in Control exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its Shareholders; and

WHEREAS, the Executive desires that in the event of any Change in Control he will continue to have the responsibility and status he has earned; and

WHEREAS, the Board has determined that it is appropriate to reinforce and encourage the continued attention and dedication of the Executive, as a member of the Company's management, to his assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a Change in Control of the Company.

NOW, THEREFORE, in order to induce the Executive to remain in the employment of the Company and in consideration of the Executive agreeing to remain in the employment of the Company, subject to the terms and conditions set out below, the Company agrees it will pay such amount, as provided in Section 4 of this Agreement, to the Executive, if the Executive's employment with the Company terminates under one of the circumstances described herein following a Change in Control of the Company, as herein defined.

Section 1. Term: This Agreement shall terminate, except to the extent that any obligation of the Company hereunder remains unpaid as of such time, upon the earliest of (i) November 1, 2005 if a Change in Control of the Company has not occurred within such period; (ii) the termination of the Executive's employment with the Company based on Death, Disability (as defined in Section 3(b)), Retirement (as defined in Section 3(c)), Cause (as defined in Section 3(d)) or by the Executive other than for Good Reason (as defined in Section 3(e)); and (iii) two years from the date of a Change in Control of the Company if the Executive has not voluntarily terminated his employment for Good Reason as of such time.

Section 2. Change in Control: No compensation shall be payable under this Agreement unless and until (a) there shall have been a Change in Control of the Company, while the Executive is still an employee of the Company and (b) the Executive's employment by the Company thereafter shall have been terminated in accordance with Section 3. For purposes of this Agreement, a Change in Control of the Company shall be deemed to have occurred if: (i) there shall be consummated (x) any consolidation or merger of the Company in which the Company is not the continuing or surviving legal entity or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the

Company's Common Stock immediately prior to the merger have the same proportionate ownership of Common Stock of the surviving company immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; or (ii) the shareholders of the Company approved any plan or proposal for the liquidation or dissolution of the Company; or (iii) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of twenty percent (20%) or more of the Company's outstanding Common Stock; or (iv) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's Shareholders, of each new Director was approved by a vote of at least two-thirds of the Directors then still in office who were Directors at the beginning of the period.

Section 3. Termination Following Change in Control: (a) If a Change in Control of the Company shall have occurred while the Executive is still an employee of the Company, the Executive shall be entitled to the compensation provided in Section 4 upon the subsequent termination of the Executive's employment with the Company by the Executive voluntarily for Good Reason or by the Company unless such termination by the Company is as a result of (i) the Executive's Death, (ii) the Executive's Disability (as defined in Section (3)(b) below); (iii) the Executive's Retirement (as defined in Section 3(c) below); (iv) the Executive's termination by the Company for Cause (as defined in Section 3(d) below); or (v) the Executive's decision to terminate employment other than for Good Reason (as defined in Section 3(e) below).

(b) Disability: If, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from his duties with the Company on a full-time basis for one hundred twenty (120) consecutive days or a period of one hundred eighty (180) days within twelve (12) consecutive months (including days before and after the change of control) and within 30 days after written notice of termination is thereafter given by the Company the Executive shall not have returned to the full-time performance of the Executive's duties, the Company may terminate this Agreement for "Disability."

(c) Retirement: The term "Retirement" as used in this Agreement shall mean termination in accordance with the Company's retirement policy or any arrangement established with the consent of the Executive.

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(d) Cause: The Company may terminate the Executive's employment for Cause. For purposes of this Agreement only, the Company shall have "Cause" to terminate the Executive's employment hereunder only on the basis of fraud, misappropriation or embezzlement on the part of the Executive or malfeasance or misfeasance by said Executive in performing the duties of his office, as determined by the Board. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until there shall have been a meeting of the Board (after at least ten (10) days written notice to the Executive and an opportunity for the Executive to be heard before the Board), and the delivery to the Executive of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of said Board of Directors stating that in the good faith opinion of the Board the Executive was guilty of conduct set forth in the second sentence of this Section 3(d) and specifying the particulars thereof in detail.

(e) Good Reason: The Executive may terminate the Executive's employment for Good Reason at any time during the term of this Agreement. For purposes of this Agreement "Good Reason" shall mean any of the following (without the Executive's express written consent):

(i) the assignment to the Executive by the Company of duties

inconsistent with the Executive's position, duties, responsibilities and status with the Company immediately prior to a Change in Control of the Company; or a change in the Executive's titles or offices as in effect immediately prior to a Change in Control of the Company; or any removal of the Executive from or any failure to reelect the Executive to any of the positions held prior to the Change of Control, except in connection with the termination of his employment for Disability, Retirement, or Cause, or as a result of the Executive's Death; or by the Executive other than for Good Reason;

(ii) a reduction by the Company in the Executive's base salary as in effect on the date hereof or as the same may be increased from time to time during the term of this Agreement or the Company's failure to increase (within 12 months of the Executive's last increase in base salary) the Executive's base salary after a Change in Control of the Company in an amount which at least equals, on a percentage basis, the average percentage increase in base salary for all executive officers of the Company effected in the preceding 12 months;

(iii) any failure by the Company to continue in effect any benefit plan or arrangement (including, without limitation, the Company's 401(k) Plan, group life insurance plan and medical, dental, accident and disability plans) in which the Executive is participating at the time of a Change in Control of the Company (or any other plans providing the Executive with substantially similar benefits) (hereinafter referred to as "Benefit Plans"), or the taking of any action by the Company which would adversely affect the Executive's participation in or materially reduce the Executive's benefits under any such Benefit Plan or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of a Change in Control of the Company;

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(iv) any failure by the Company to continue in effect any plan or arrangement to receive securities of the Company (including, without limitation, Stock Option Plans or any other plan or arrangement to receive and exercise stock options, restricted stock or grants thereof) in which the Executive is participating at the time of a Change in Control of the Company (or plans or arrangements providing him with substantially similar benefits) (hereinafter referred to as "Securities Plans") and the taking of any action by the Company which would adversely affect the Executive's participation in or materially reduce the Executive's benefits under any such Securities Plan;

(v) any failure by the Company to continue in effect any bonus plan, automobile allowance plan, or other incentive payment plan in which the Executive is participating at the time of a Change in Control of the Company, or said Executive had participated in during the previous calendar year;

(vi) a relocation of the Company's principal executive offices to a location outside of North Carolina, or the Executive's relocation to any place other than the location at which the Executive performed the Executive's duties prior to a Change in Control of the Company, except for required travel by the Executive on the Company's business to an extent substantially consistent with the Executive's business travel obligations at the time of a Change in Control of the Company;

(vii) any failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled at the time of a Change in Control of the Company;

(viii) any breach by the Company of any provision of this Agreement;

(ix) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company; or

(x) any purported termination of the Executive's employment which is not made pursuant to a Notice of Termination satisfying the requirements of Section 3(f).

(f) Notice of Termination: Any termination by the Company pursuant to Section 3(b), 3(c) or 3(d) shall be communicated by a Notice of Termination. For purposes of this Agreement, a "Notice of Termination" shall mean a written notice which shall indicate those specific termination provisions in this Agreement relied upon and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. For purposes of this Agreement, no such purported termination by the Company shall be effective without such Notice of Termination.

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(g) Date of Termination: "Date of Termination" shall mean (a) if Executive's employment is terminated by the Company for Disability, 30 days after Notice of Termination is given to the Executive (provided that the Executive shall not have returned to the performance of the Executive's duties on a full-time basis during such 30 day period) or (b) if the Executive's employment is terminated by the Company for any other reason, the date on which a Notice of Termination is given; provided that if within 30 days after any Notice of Termination is given to the Executive by the Company the Executive notifies the Company that a dispute exists concerning the termination, the Date of Termination shall be the date the dispute is finally determined, whether by mutual agreement by the parties or otherwise or (c) the date the Executive notifies the Company in writing that he is terminating his employment and setting forth the Good Reason (as defined in Section 3(e)).

Section 4. Severance Compensation upon Termination of Employment. If the Company shall terminate the Executive's employment other than pursuant to Section 3(b), 3(c) or 3(d) or if the Executive shall voluntarily terminate his employment for Good Reason, then the Company shall pay to the Executive as severance pay an amount equal to 2.99 times the annualized aggregate annual compensation paid to the Executive by the Company or any of its subsidiaries during the five (5) calendar years (or the period of the Executive's employment with the Company if the Executive has been employed with the Company for less than five calendar years) preceding the Change in Control of the Company in twenty-four equal monthly installments beginning on the regular payroll date for salaried employees of the Company in the month of the Executive's Date of Termination; provided, however, that if the severance payment under this Section 4, either alone or together with other payments which the Executive has the right to receive from the Company, would constitute a "parachute payment" (as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")), such severance payment shall be reduced to the largest amount as will result in no portion of the severance payment under this Section 4 being subject to the excise tax imposed by Section 4999 of the Code. The determination of any reduction in the lump sum severance payment under this Section 4 pursuant to the foregoing proviso shall be made by the Company's Independent Certified Public Accountants, and their decision shall be conclusive and binding on the Company and the Executive.

Section 5. No Obligation to Mitigate Damages; No Effect on Other Contractual Rights: (a) The Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

(b) The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish the Executive's rights under any employment agreement or other contract, plan or employment arrangement with the Company.

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(c) The Company shall, upon the termination of the Executive's employment other than by Death, Disability (as defined in Section 3(b)), Retirement (as defined in Section 3(c)) or Cause (as defined in Section 3(d)), or the termination of the Executive's employment by the Executive without Good Reason, maintain in full force and effect, for the Executive's continued benefit until the earlier of (a) two years after the Date of Termination or (b) Executive's commencement of full time employment with a new employer, all life insurance, medical, health and accident, and disability plans, programs or arrangements in which he was entitled to participate immediately prior to the Date of Termination, provided that his continued participation is possible under the general terms and provisions of such plans and programs. In the event the Executive is ineligible under the terms of such plans or programs to continue to be so covered, the Company shall provide substantially equivalent coverage through other sources.

(d) The Executive's account and rights in and under any retirement benefit or incentive plans, shall remain subject to the terms and conditions of the respective plans as they existed at the time of the termination of the Executive's employment.

Section 6. Successor to the Company: (a) The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Any failure of the Company to obtain such agreement prior to the effectiveness of any such succession or assignment shall be a material breach of this Agreement and shall entitle the Executive to terminate the Executive's employment for Good Reason. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 6 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law. If at any time during the term of this Agreement the Executive is employed by any corporation a majority of the voting securities of which is then owned by the Company, "Company" as used in Sections 3, 4 and 10 hereof shall in addition include such employer. In such event, the Company agrees that it shall pay or shall cause such employer to pay any amounts owed to the Executive pursuant to Section 4 hereof.

(b) If the Executive should die while any amounts are still payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's legatee, or other designee or, if there be no such designee, to the Executive's estate. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives or attorney-in-fact, executors or administrators, heirs, distributees and legatees.

Section 7. Notice: For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

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If to the Company:
Unifi, Inc.
P. O. Box 19109
Greensboro, NC 27419-9109
ATTENTION: General Counsel
(currently Charles F. McCoy)

If to the Executive:
Mr. Willis C. Moore, III
3801 Round Hill Road
Greensboro, NC 27408

or such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

Section 8. Miscellaneous: (a) The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

(b) Any payment or delivery required under this Agreement shall be subject to all requirements of the law with regard to withholding (including FICA tax), filing, making of reports and the like, and Company shall use its best efforts to satisfy promptly all such requirements.

(c) Prior to the Change in Control of the Company, as herein defined, this Agreement shall terminate if Executive shall resign, retire, become permanently and totally disabled, or die. This Agreement shall also terminate if Executive's employment as an executive officer of the Company shall have been terminated for any reason by the Board as constituted more than three (3) months prior to any Change in Control of the Company, as defined in Section 2 of this Agreement.

Section 9. Legal Fees and Expenses: The Company shall pay all legal fees and expenses which the Executive may incur as a result of the Company's contesting the validity, enforceability or the executive's interpretation of, or determinations under, this Agreement.

Section 10. Disclosure of Confidential Information. Executive agrees that:

- (A) During the term of this Agreement and for a period of five (5) years after his Date of Termination, he will not disclose or make available to any person or other entity any trade secrets, Confidential Information, or "know-how" relating to the Company's, its affiliates' and subsidiaries', businesses without written authority from the Board, unless he is compelled to disclose it by judicial process.

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Confidential Information - shall mean all information about the Company, its affiliates or subsidiaries, or relating to any of their products, services or any phase of their operations, not generally known to their Competitors or which is not public information, which Executive knows or acquired knowledge of during the term of his employment with the Company.

- (B) Documents - under no circumstances shall Executive remove from the Company's offices any of the Company's books, records, documents, files, computer discs or information, reports, presentations, customer lists, or any copies of such documents for use outside of his employment with the Company, except as specifically authorized in writing by the Board.

Section 11. Non-Compete. Executive agrees that during the period of employment and for a period of two (2) years after his Date of Termination he will not, directly or indirectly:

- (A) Seek employment or consulting arrangements with or offer advice, suggestions, or input to any Competitor of the Company; or
- (B) 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 of the Company, unless approved by the Board; or
- (C) Solicit, induce, or attempt to induce any past or current customer of the Company (a) to cease doing business in whole or in part with or through the Company; or (b) to do business with any other person, firm, partnership, corporation, or other entity which sales products or performs services materially similar to or competitive with those provided by the Company; or
- (D) Initiate, encourage or solicit for employment any person who is now employed or during the term of this Agreement becomes employed by the Company (or whose activities or services are dedicated to the Company).

Competitor - shall mean any individual, partnership, joint venture, firm, corporation, limited liability company, business trust, association, trust or other enterprise (whether or not incorporated) engaged in the business of developing, producing, manufacturing, selling and/or distributing a product or providing services similar to any product produced or service provided by the Company, its affiliates or subsidiaries.

Section 12. Remedy for violation of Sections 10 and 11. The Executive acknowledges that the Company has no adequate remedy at law and will be irreparably harmed if the Executive breaches or threatens to breach the provisions of Sections 10 or 11 of this Agreement, and therefore, agrees that the Company shall be entitled to injunctive relief to prevent any breach or threatened breach of such Sections and that the Company shall be entitled to specific performance of the terms of such Sections in addition to any other legal or equitable remedy it may have. Nothing in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies at law or in equity that it may have or any other rights that it may have under any other agreement.

Section 13. Arbitration. Any dispute or controversy between the Company and the Executive, whether arising out of or relating to this Agreement, the breach of this Agreement, or otherwise, shall be settled by arbitration administered by the American Arbitration Association ("AAA") in accordance with its Commercial Arbitration Rules then in effect, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Any arbitration shall be held before a single arbitrator who shall be selected by the mutual agreement of the Company and the Executive, unless the parties are unable to agree to an arbitrator, in which case, the arbitrator will be selected under the procedures of the AAA. The arbitrator shall have the authority to award any remedy or relief that a court of competent jurisdiction could order or grant, including, without limitation, the issuance of an injunction. However, either party may, without inconsistency with this arbitration provision, apply to any court having jurisdiction over such dispute

relief until the arbitration award is rendered or the controversy is otherwise resolved. Except as necessary in court proceedings to enforce this arbitration provision or an award rendered hereunder, or to obtain interim relief, neither a party nor an arbitrator may disclose the existence, content or results of any arbitration hereunder without the prior written consent of the Company and the Executive. The Company and the Executive acknowledge that this Agreement evidences a transaction involving interstate commerce. Notwithstanding any choice of law provision included in this Agreement, the United States Federal Arbitration Act shall govern the interpretation and enforcement of this arbitration provision. The arbitration proceeding shall be conducted in Greensboro, North Carolina or such other location to which the parties may agree. The Company shall pay the costs of any arbitrator appointed hereunder.

IN WITNESS WHEREOF, Unifi, Inc. has caused this Agreement to be signed by an officer of the Company and a member of the Company's Compensation Committee pursuant to resolutions duly adopted by the Board of Directors and its seal affixed hereto and the Executive has hereunto affixed his hand and seal effective as of the date first above written.

UNIFI, INC.

By: CHARLES F. MCCOY

Charles F. McCoy
Vice President, Secretary &
General Counsel

By: DONALD F. ORR

Donald F. Orr,
Chairman of the Compensation Committee
of the Board of Directors

EXECUTIVE

WILLIS C. MOORE, III

(Seal)

Willis C. Moore, III

(Exhibit 21)

UNIFI, INC.

SUBSIDIARIES

Name	Address	Incorporation	Unifi Percentage of Voting Securities Owned
Unifi Textured Yarns Europe, Ltd. ("UTYE")	Letterkenny, Ireland	Ireland	100% D2
Unifi Dyed Yarns, Ltd.	Manchester, England	United Kingdom	100% D2
Unifi International Services, Inc. ("UISI")	Warwickshire, England	North Carolina	100%
Unifi International Services Europe	Lyon, France	France	100% UISI
Unifi GmbH	Oberkottzau, Germany	Germany	100% D2
Unifi Italia, S.r.l.	Viale Andreis, Italy	Italy	100% D2
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 Technical Fabrics, LLC	Greensboro, NC	North Carolina	100% UMI
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.

Name	Address	Incorporation	Unifi Percentage of Voting Securities Owned
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.]		
Glentouch Yarn Company, LLC		Altamahaw, NC	North Carolina	100% - UMI
Unifi Holding 1 ("D1")		Amsterdam, Netherlands	Netherlands	100%
Unifi Holding 2 ("D2")		Amsterdam, Netherlands	Netherlands	100% D1
Unifi Asia, Limited		Hong Kong	Hong Kong	99.9% D2 0.1% UTYE

EXHIBIT (23)

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 19, 2002, 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 30, 2002.

Greensboro, North Carolina
September 23, 2002

EXHIBIT (99a)

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 year ended June 30, 2002 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 23, 2002

By: BRIAN R. PARKE

Brian R. Parke
President and Chief Executive Officer

EXHIBIT (99b)

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 year ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Willis C. Moore, III, 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 23, 2002

By: WILLIS C. MOORE, III

Willis C. Moore, III
Executive Vice President and
Chief Financial Officer