WESTERN ALLIANCE BANCORPORATION
Form 10-Q
May 06, 2011

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

þ **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended March 31, 2011

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition period from __________ to __________

Commission File Number: 001-32550

WESTERN ALLIANCE BANCORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	**88-0365922** (I.R.S. Employer I.D. Number)
One E. Washington Street, Phoenix, AZ (Address of Principal Executive Offices)	**85004** (Zip Code)
(602) 389-3500 (Registrant s telephone number, including area code)	

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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common stock issued and outstanding: 82,250,886 shares as of April 30, 2011.

Table of Contents

2

Table of Contents

PART I FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (unaudited)	December 31, 2010
	(in thousands, except per share amounts)	
Assets:		
Cash and due from banks	**$ 99,875**	$ 87,984
Federal funds sold and other		918
Interest-bearing demand deposits in other financial institutions	**263,463**	127,844
Cash and cash equivalents	**363,338**	216,746
Money market investments	**29,947**	37,733
Investment securities measured, at fair value	**10,603**	14,301
Investment securities available-for-sale, at fair value; amortized cost of $1,254,095 at March 31, 2011 and $1,187,608 at December 31, 2010	**1,230,896**	1,172,913
Investment securities held-to-maturity, at amortized cost; fair value of $47,869 at March 31, 2011 and $47,996 at December 31, 2010	**48,150**	48,151
Investments in restricted stock, at cost	**35,425**	36,877
Loans:		
Held for investment, net of deferred fees	**4,278,007**	4,240,542
Less: allowance for credit losses	**(106,133)**	(110,699)
Total loans	**4,171,874**	4,129,843
Premises and equipment, net	**112,028**	114,372
Goodwill and other intangible assets	**38,401**	39,291
Other assets acquired through foreclosure, net	**98,312**	107,655
Bank owned life insurance	**130,992**	129,808
Deferred tax assets, net	**79,752**	79,860
Prepaid expenses	**21,755**	24,741
Other assets	**33,281**	41,501
Discontinued operations, assets held for sale	**82**	91
Total assets	**$ 6,404,836**	$ 6,193,883
Liabilities:		
Deposits:		
Non-interest-bearing demand	**$ 1,455,064**	$ 1,443,251
Interest-bearing	**4,042,400**	3,895,190
Total deposits	**5,497,464**	5,338,441
Customer repurchase agreements	**163,404**	109,409
Other borrowings	**73,049**	72,964
Junior subordinated debt, at fair value	**43,034**	43,034
Other liabilities	**26,310**	27,861

Total liabilities	**5,803,261**	5,591,709
Commitments and contingencies (Note 8)		
Stockholders equity:		
Preferred stock par value $.0001 and liquidation value per share of $1,000; 20,000,000 authorized; 140,000 issued and outstanding	**131,580**	130,827
Common stock par value $.0001; 200,000,000 authorized; 82,237,267 shares issued and outstanding at March 31, 2011 and 81,668,565 at December 31, 2010	**8**	8
Surplus	**740,878**	739,561
Retained deficit	**(256,150)**	(258,800)
Accumulated other comprehensive income (loss)	**(14,741)**	(9,422)
Total stockholders equity	**601,575**	602,174
Total liabilities and stockholders equity	**$ 6,404,836**	$ 6,193,883

See the accompanying notes.

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,	
	2011	*2010*
	(in thousands, except per share amounts)	
Interest income:		
Loans, including fees	**$ 63,882**	$ 62,350
Investment securities taxable	**6,897**	5,726
Investment securities non-taxable	**20**	51
Dividends taxable	**308**	108
Dividends non-taxable	**705**	236
Other	**154**	263
Total interest income	**71,966**	68,734
Interest expense:		
Deposits	**7,898**	12,079
Customer repurchase agreements	**86**	284
Other borrowings	**2,182**	449
Junior subordinated and subordinated debt	**702**	1,204
Total interest expense	**10,868**	14,016
Net interest income	**61,098**	54,718
Provision for credit losses	**10,041**	28,747
Net interest income after provision for credit losses	**51,057**	25,971
Non-interest income:		
Securities impairment charges, net		(103)
Portion of impairment charges recognized in other comprehensive loss (before taxes)		
Net securities impairment charges recognized in earnings		(103)
Gain on sales of securities, net	**1,379**	8,218
Mark to market (losses) gains, net	**(509)**	301
Service charges and fees	**2,284**	2,197
Trust and investment advisory fees	**636**	1,213
Operating lease income	**671**	964
Other fee revenue	**760**	762
Income from bank owned life insurance	**1,184**	719
Other	**425**	358
Total non-interest income (loss)	**6,830**	14,629
Non-interest expense:		

Salaries and employee benefits	**22,840**	21,440
Occupancy expense, net	**4,854**	4,787
Net loss (gain) on sales/valuations of repossessed assets and bank premises, net	**6,129**	(1,014)
Insurance	**3,863**	3,492
Loan and repossessed asset expenses	**2,122**	2,364
Legal, professional and director fees	**1,366**	1,868
Marketing	**1,157**	1,156
Customer service	**892**	1,065
Data processing	**848**	791
Intangible amortization	**890**	907
Operating lease depreciation	**421**	689
Merger expenses	**217**	
Other	**2,547**	3,298
Total non-interest expense	**48,146**	40,843
Income (loss) from continuing operations before provision for income taxes	**9,741**	(243)
Income tax expense (benefit)	**4,029**	(1,562)
Income from continuing operations	**5,712**	1,319
Loss from discontinued operations, net of tax benefit	**(559)**	(935)
Net income	**5,153**	384
Dividends and accretion on preferred stock	**2,503**	2,466
Net income (loss) available to common shareholders	**$ 2,650**	$ (2,082)

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(continued)

	Three Months Ended March 31, 2011	2010
	(in thousands, except per share amounts)	
Income (loss) per share basic and diluted		
Continuing operations	**$ 0.04**	$ (0.02)
Discontinued	**(0.01)**	(0.01)
	$ 0.03	$ (0.03)
Average number of common shares basic	**80,794**	71,965
Average number of common shares diluted	**81,013**	71,965
Dividends declared per common share	**$**	$

See the accompanying notes.

5

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended March 31,	
	2011	*2010*
	(in thousands)	
Net income	**$ 5,153**	$ 384
Other comprehensive (loss)/ income, net:		
Unrealized (loss)/ gain on securities AFS, net	**(4,486)**	4,548
Impairment loss on securities, net		63
Realized loss/ (gain) on sale of securities AFS included in income, net	**(833)**	(5,333)
Net other comprehensive (loss)/ income	**(5,319)**	(722)
Comprehensive (loss)	**$ (166)**	$ (338)

There was no impairment loss recognized for the three months ended March 31, 2011. Amount of impairment losses reclassified out of accumulated other comprehensive income into earnings for the three months ended March 31, 2010 were $0.1 million. The income tax benefit related to these losses was $40,000.

See the accompanying notes.

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

	Preferred Stock		*Common Stock*			*Accumulated Other Comprehensive Income*	*Retained Earnings*	*Total Stockholders*
	Shares	*Amount*	*Shares*	*Amount*	*Surplus*	*(Loss)*	*(Deficit)*	*Equity*
					(in thousands)			
Balance, December 31, 2010	140	$ 130,827	81,669	$ 8	$ 739,561	$ (9,422)	$ (258,800)	$ 602,174
Net income							**5,153**	**5,153**
Exercise of stock options			**46**		**312**			**312**
Stock-based compensation			**76**		**753**			**753**
Restricted stock grants, net			**447**		**252**			**252**
Dividends on preferred stock							**(1,750)**	**(1,750)**
Accretion on preferred stock discount		**753**					**(753)**	
Other comprehensive loss, net						**(5,319)**		**(5,319)**
Balance, March 31, 2011	**140**	**$ 131,580**	**82,238**	**$ 8**	**$ 740,878**	**$ (14,741)**	**$ (256,150)**	**$ 601,575**

7

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31, 2011	2010
	(in thousands)	
Cash flows from operating activities:		
Net Income	**$ 5,153**	$ 384
Adjustments to reconcile net loss to cash provided by operating activities:		
Provision for credit losses	**10,041**	28,747
Depreciation and amortization	**2,705**	3,610
Stock-based compensation	**1,005**	2,142
Deferred income taxes and income taxes receivable	**2,972**	117
Net amortization of discounts and premiums for investment securities	**2,696**	1,475
Securities impairment		103
(Gains)/Losses on:		
Sales of securities, AFS	**(1,379)**	(8,218)
Derivatives	**69**	(67)
Sale of repossessed assets, net	**5,829**	(233)
Sale of premises and equipment, net	**300**	(781)
Sale of loans, net		(8)
Changes in:		
Other assets	**10,723**	(35,527)
Other liabilities	**(1,601)**	(61,458)
Fair value of assets and liabilities measured at fair value	**509**	(301)
Servicing rights, net	**161**	9
Net cash provided by (used in) operating activities	**39,183**	(70,006)
Cash flows from investing activities:		
Proceeds from sale of securities measured at fair value		5
Principal pay downs and maturities of securities measured at fair value	**3,606**	9,284
Proceeds from sale of available-for-sale securities	**72,996**	182,218
Principal pay downs and maturities of available-for-sale securities	**33,512**	40,682
Purchase of available-for-sale securities	**(174,320)**	(183,623)
Proceeds from maturities of securities held-to-maturity		1,655
Loan originations and principal collections, net	**(63,247)**	(4,116)
Investment in money market	**7,786**	40,724
Liquidation of restricted stock	**1,452**	
Sale and purchase of premises and equipment, net	**229**	3,498
Proceeds from sale of other real estate owned, net	**13,815**	10,158
Net cash (used in) provided by investing activities	**(104,171)**	100,485

Table of Contents

WESTERN ALLIANCE BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(continued)

	Three Months Ended March 31, 2011	2010
	(in thousands)	
Cash flows from financing activities:		
Net increase in deposits	**159,023**	468,028
Net increase/ (decrease) in borrowings	**53,995**	(63,547)
Proceeds from issuance of common stock options and stock warrants	**312**	
Cash dividends paid on preferred stock	**(1,750)**	(1,750)
Net cash provided by financing activities	**211,580**	402,731
Net increase/ (decrease) in cash and cash equivalents	**146,592**	433,210
Cash and cash equivalents at beginning of year	**216,746**	396,830
Cash and cash equivalents at end of year	**$ 363,338**	$ 830,040
Supplemental disclosure:		
Cash paid during the period for:		
Interest	**$ 13,018**	$ 12,692
Income taxes		
Non-cash investing and financing activity:		
Transfers to other assets acquired through foreclosure, net	**11,175**	22,290
Assets transferred to held for sale		480

See the accompanying notes.

9

Table of Contents

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operation

Western Alliance Bancorporation (WAL or the Company), incorporated in the state of Nevada, is a bank holding company providing full service banking and related services to locally owned businesses, professional firms, real estate developers and investors, local non-profit organizations, high net worth individuals and other consumers through its three wholly owned subsidiary banks: Bank of Nevada, operating in Nevada, Western Alliance Bank, operating in Arizona and Northern Nevada and Torrey Pines Bank, operating in California. In addition, its non-bank subsidiaries, Shine Investment Advisory Services, Inc. and Western Alliance Equipment Finance, offer an array of financial products and services aimed at satisfying the needs of small to mid-sized businesses and their proprietors, including financial planning, investment advice, and equipment leasing nationwide. These entities are collectively referred to herein as the Company.

Basis of Presentation

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States (GAAP) and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiaries are included in these Consolidated Financial Statements. All significant intercompany balances and transactions have been eliminated.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses; fair value of other real estate owned; determination of the valuation allowance related to deferred tax assets; impairment of goodwill and other intangible assets and other than temporary impairment on securities. Although Management believes these estimates to be reasonably accurate, actual amounts may differ. In the opinion of Management, all adjustments considered necessary have been reflected in the financial statements during their preparation.

Principles of consolidation

WAL has 10 wholly-owned subsidiaries: Bank of Nevada (BON), Western Alliance Bank (WAB), Torrey Pines Bank (TPB), which are all banking subsidiaries; Western Alliance Equipment Finance, Inc. (WAEF), which provides equipment leasing; and six unconsolidated subsidiaries used as business trusts in connection with issuance of trust-preferred securities. In addition, WAL maintains an 80 percent interest in Shine Investment Advisory Services Inc. (Shine), a registered investment advisor. WAL divested formerly wholly-owned subsidiary Premier Trust, Inc. as of September 1, 2010.

BON has a wholly-owned Real Estate Investment Trust (REIT) that is used to hold certain commercial real estate loans, residential real estate loans and other loans in a real estate investment trust. The Company does not have any other entities that should be considered for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain amounts in the consolidated financial statements as of December 31, 2010 and for the three months ended March 31, 2010 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income or stockholders equity as previously reported.

Interim financial information

The accompanying unaudited consolidated financial statements as of March 31, 2011 and 2010 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010.

The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the Company s audited financial statements.

Investment securities

Investment securities may be classified as held-to-maturity (HTM), available-for-sale (AFS) or trading. The appropriate classification is initially decided at the time of purchase. Securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or general economic conditions. These securities are carried at amortized cost. The sale of a security within three months of its maturity date or after at least 85 percent of the principal outstanding has been collected is considered a maturity for purposes of classification and disclosure.

Securities classified as AFS or trading are reported as an asset on the Consolidated Balance Sheets at their estimated fair value. As the fair value of AFS securities changes, the changes are reported net of income tax as an element of other comprehensive income (OCI), except for impaired securities. When AFS securities are sold, the unrealized gain or loss is reclassified from OCI to non-interest income. The changes in the fair values of trading securities are reported in non-interest income. Securities classified as AFS are both equity and debt securities the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company s assets and liabilities, liquidity needs, and regulatory capital considerations.

Interest income is recognized based on the coupon rate and increased by accretion of discounts earned or decreased by the amortization of premiums paid over the contractual life of the security using the interest method. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations.

In estimating whether there are any other than temporary impairment losses, management considers 1) the length of time and the extent to which the fair value has been less than amortized cost, 2) the financial condition and near term prospects of the issuer, 3) the impact of changes in market interest rates, and 4) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Declines in the fair value of individual debt securities available for sale that are deemed to be other than temporary are reflected in earnings when identified. The fair value of the debt security then becomes the new cost basis. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other than temporary decline in fair value of the debt security related to 1) credit loss is recognized in earnings, and 2) market or other factors is recognized in other comprehensive income or loss. Credit loss is recorded if the present value of cash flows is less than amortized cost. For individual debt securities where the Company intends to sell the security or more likely than not will not recover all of its amortized cost, the other than temporary impairment is recognized in earnings equal to the entire difference between the securities cost basis and its fair value at the balance sheet date. For individual debt securities for which a credit loss has been recognized in earnings, interest accruals and amortization and accretion of premiums and discounts are suspended when the credit loss is recognized. Interest received after accruals have been suspended is recognized on a cash basis.

Derivative financial instruments

All derivatives are recognized on the balance sheet at their fair value, with changes in fair value reported in current-period earnings. These instruments consist primarily of interest rate swaps.

Certain derivative transactions that meet specified criteria qualify for hedge accounting. The Company occasionally purchases a financial instrument or originates a loan that contains an embedded derivative instrument. Upon purchasing the instrument or originating the loan, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract and carried at fair value. However, in cases where (1) the host contract is measured at fair value, with changes in fair value reported in current earnings, or (2) the Company is unable to reliably identify and measure an embedded derivative for separation from its host contract, the entire contract is carried on the balance sheet at fair value and is not designated as a hedging instrument.

Allowance for credit losses

Credit risk is inherent in the business of extending loans and leases to borrowers. Like other financial institutions, the Company must maintain an adequate allowance for credit losses. The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when Management believes that the contractual principal or interest will not be collected. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount believed adequate to absorb probable losses on existing loans that may become uncollectable, based on evaluation of the collectability of loans and prior credit loss experience, together with other factors. The Company formally re-evaluates and establishes the appropriate level of the allowance for credit losses on a quarterly basis.

Our allowance for credit loss methodology incorporates several quantitative and qualitative risk factors used to establish the appropriate allowance for credit losses at each reporting date. Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in the level of nonperforming loans and other factors. Qualitative factors include the economic condition of our operating markets and the state of certain industries. Specific changes in the risk factors are based on perceived risk of similar groups of loans classified by collateral type, purpose and term. An internal one-year and three-year loss history are also incorporated into the allowance calculation model. Due to the credit concentration of our loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Nevada, Arizona and California, which have declined significantly in recent periods. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, the FDIC and state bank regulatory agencies, as an integral part of their examination processes, periodically review our subsidiary banks allowances for credit losses, and may require us to make additions to our allowance based on their judgment about information available to them at the time of their examinations. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

The allowance consists of specific and general components. The specific allowance relates to impaired loans. In general, impaired loans include those where interest recognition has been suspended, loans that are more than 90 days delinquent but because of adequate collateral coverage, income continues to be recognized, and other criticized and classified loans not paying substantially according to the original contract terms. For such loans, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan are lower than the carrying value of that loan, pursuant to FASB ASC 310 *Receivables* (ASC 310). Loans not collateral dependent are evaluated based on the expected future cash flows discounted at the original contractual interest rate. The amount to which the present value falls short of the current loan obligation will be set up as a reserve for that account or charged-off.

The Company uses an appraised value method to determine the need for a reserve on impaired, collateral dependent loans and further discounts the appraisal for disposition costs. Due to the rapidly changing economic and market conditions of the regions within which we operate, the Company obtains independent collateral valuation analysis on a regular basis for each loan, typically every six months.

The general allowance covers all non-impaired loans and is based on historical loss experience adjusted for the various qualitative and quantitative factors listed above. The change in the allowance from one reporting period to the next may not directly correlate to the rate of change of the nonperforming loans for the following reasons:

1. A loan moving from impaired performing to impaired nonperforming does not mandate an increased reserve. The individual account is evaluated for a specific reserve requirement when the loan moves to impaired status, not when it moves to nonperforming status, and is reevaluated at each subsequent reporting period. Because our nonperforming loans are predominately collateral dependent, reserves are primarily based on collateral value, which is not affected by borrower performance but rather by market conditions.
2. Not all impaired accounts require a specific reserve. The payment performance of the borrower may require an impaired classification, but the collateral evaluation may support adequate collateral coverage. For a number of impaired accounts in which borrower performance has ceased, the collateral coverage is now sufficient because a partial charge off of the account has been taken. In those instances, neither a general reserve nor a specific reserve is assessed.

Other assets acquired through foreclosure

Other assets acquired through foreclosure consist primarily of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets (primarily repossessed assets formerly leased) are classified as other real estate owned and other repossessed property and are initially reported at fair value of the asset less selling costs. Subsequent write downs are based on the lower of carrying value or fair value, less estimated costs to sell the property. Costs relating to the development or improvement of the assets are capitalized and costs relating to holding the assets are charged to non-interest expense. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances.

Goodwill

The Company recorded as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired in accordance with applicable guidance. As per this guidance, a two-step process is outlined for impairment testing of goodwill. Impairment testing is generally performed annually, as well as when an event triggering impairment may have occurred. The first step tests for impairment, while the second step, if necessary, measures the impairment. The resulting impairment amount if any is charged to current period earnings as non-interest expense.

Income taxes

Western Alliance Bancorporation and its subsidiaries, other than BW Real Estate, Inc., file a consolidated federal tax return. Due to tax regulations, several items of income and expense are recognized in different periods for tax return purposes than for financial reporting purposes. These items represent temporary differences. Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of Management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Although realization is not assured, the Company believes that the realization of the recognized net deferred tax asset of $79.8 million at March 31, 2011 is more likely than not based on expectations as to future taxable income and based on available tax planning strategies as defined in FASB ASC 740, *Income Taxes* (ASC 740) that could be implemented if necessary to prevent a carryforward from expiring.

The most significant source of these timing differences are the credit loss reserve build and net operating loss carryforwards, which account for substantially all of the net deferred tax asset. In general, the Company will need to generate approximately $222 million of taxable income during the respective carryforward periods to fully realize its deferred tax assets.

As a result of the recent losses, the Company is in a three-year cumulative pretax loss position at March 31, 2011. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. The Company has concluded that there is sufficient positive evidence to overcome this negative evidence. This positive evidence includes Company forecasts, exclusive of tax planning strategies that show realization of deferred tax assets by the end of 2013 based on current projections. In addition, the Company has evaluated tax planning strategies, including potential sales of businesses and assets in which it could realize the excess of appreciated value over the tax basis of its assets. The amount of deferred tax assets considered realizable, however, could be significantly reduced in the near term if estimates of future taxable income during the carryforward period are significantly lower than forecasted due to deterioration in market conditions.

Based on the above discussion, the net operating loss carryforward of 20 years provides sufficient time to utilize deferred federal and state tax assets pertaining to the existing net operating loss carryforwards and any NOL that would be created by the reversal of the future net deductions that have not yet been taken on a tax return.

Fair values of financial instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities. FASB ASC 820, *Fair Value Measurements and Disclosures* (ASC 820) establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The Company uses various valuation approaches, including market, income and/or cost approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the factors market participants would consider in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

Level 1 Observable quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Observable quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly in the market.

Level 3 Model-based techniques where all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of matrix pricing,

Table of Contents

discounted cash flow models and similar techniques.

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. When market assumptions are available, ASC 820 requires the Company to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

FASB ASC 825, *Financial Instruments* (ASC 825) requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Management uses its best judgment in estimating the fair value of the Company s financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at March 31, 2011 or 2010. The estimated fair value amounts for 2011 and 2010 have been measured as of period-end, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at the period-end.

The information in Note 10, Fair Value of Financial Instruments, should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company s assets and liabilities.

Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Company s disclosures and those of other companies or banks may not be meaningful.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents

The carrying amounts reported in the consolidated balance sheets for cash and due from banks and federal funds sold and other approximates their fair value.

Securities

The fair values of U.S. Treasuries, corporate bonds, and exchange-listed preferred stock are based on quoted market prices and are categorized as Level 1 of the fair value hierarchy.

The fair value of other investment securities were determined based on matrix pricing. Matrix pricing is a mathematical technique that utilizes observable market inputs including, for example, yield curves, credit ratings and prepayment speeds. Fair values determined using matrix pricing are generally categorized as Level 2 in the fair value hierarchy.

The Company owns certain collateralized debt obligations (CDOs) and structured notes for which quoted prices are not available. Quoted prices for similar assets are also not available for these investment securities. In order to determine the fair value of these securities, the Company has estimated the future cash flows and discount rate using observable market inputs adjusted based on assumptions regarding the adjustments a market participant would assume necessary for each specific security. As a result, the resulting fair values have been categorized as Level 3 in the fair value hierarchy.

Restricted stock

The Company s subsidiary banks are members of the Federal Home Loan Bank (FHLB) system and maintain an investment in capital stock of the FHLB. The Company s subsidiary banks also maintain an investment in their primary correspondent bank. These investments are carried at cost since no ready market exists for them, and they have no

quoted market value. The Company conducts a periodic review and evaluation of our FHLB stock to determine if any impairment exists.

Loans

Fair value for loans is estimated based on discounted cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality with adjustments that the Company believes a market participant would consider in determining fair value based on a third party independent valuation. As a result, the fair value for loans disclosed in Note 10, Fair Value of Financial Instruments, is categorized as Level 3 in the fair value hierarchy.

Accrued interest receivable and payable

The carrying amounts reported in the consolidated balance sheets for accrued interest receivable and payable approximate their fair value. Accrued interest receivable and payable fair value measurements disclosed in Note 10 Fair Value of Financial Instruments, are classified as Level 3 in the fair value hierarchy.

Derivative financial instruments

All derivatives are recognized on the balance sheet at their fair value. The fair value for derivatives is determined based on market prices, broker-dealer quotations on similar product or other related input parameters. As a result, the fair values have been categorized as Level 2 in the fair value hierarchy.

Deposit liabilities

The fair value disclosed for demand and savings deposits is by definition equal to the amount payable on demand at their reporting date (that is, their carrying amount) which the Company believes a market participant would consider in determining fair value. The carrying amount for variable-rate deposit accounts approximates their fair value. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on these deposits. The fair value measurement of the deposit liabilities disclosed in Note 10, Fair Value of Instruments, is categorized as Level 3 in the fair value hierarchy.

Federal Home Loan Bank and Federal Reserve advances and other borrowings

The fair values of the Company s borrowings are estimated using discounted cash flow analyses, based on the market rates for similar types of borrowing arrangements. The FHLB and FRB advances and other borrowings have been categorized as Level 3 in the fair value hierarchy.

Other Borrowings

The Company issued senior notes are based on quoted market prices and categorized as Level 3 of the fair value hierarchy.

Junior subordinated and subordinated debt

Junior subordinated debt and subordinated debt are valued by comparing interest rates and spreads to benchmark indices offered to institutions with similar credit profiles to our own and discounting the contractual cash flows on our debt using these market rates. The junior subordinated debt and subordinated debt have been categorized as Level 3 in the fair value hierarchy.

Off-balance sheet instruments

Fair values for the Company s off-balance sheet instruments (lending commitments and standby letters of credit) are based on quoted fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing.

Recent Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board (FASB) issued guidance within the Accounting Standards Update (ASU) 2010-20 Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users evaluation of (i) the nature of credit risk inherent in the entity s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a roll forward of the allowance for credit losses as well as information about modified, impaired, nonaccrual and past due loans and credit quality indicators. ASU 2010-20 became effective for the Company s financial statements as of December 31,

Table of Contents

2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period are required for the Company s financial statements that include periods beginning on or after January 1, 2011. The adoption of this guidance did not have any impact on the Company s consolidated statement of income (loss), its consolidated balance sheet, or its consolidated statement of cash flows.

In April 2011, the FASB issued guidance within the ASU 2011-02 A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring. ASU 2011-02 clarifies when a loan modification or restructuring is considered a troubled debt restructuring. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and will be applied retrospectively to the beginning of the annual period of adoption. The adoption of this guidance is not expected to have a material impact on the Company s consolidated statement of income (loss), its consolidated balance sheet, or its consolidated statement of cash flows.

2. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In the first quarter of 2010, the Company decided to discontinue its affinity credit card segment, PartnersFirst, and has presented certain activities as discontinued operations. The Company transferred certain assets with balances at March 31, 2011 of $0.1 million to held-for-sale and reported a portion of its operations as discontinued. At March 31, 2011 and December 31, 2010, the Company had $41.7 million and $45.6 million, respectively, of outstanding credit card loans which will have continuing cash flows related to the collection of these loans. These credit card loans are included in loans held for investment as of March 31, 2011 and December 31, 2010.

The following table summarizes the operating results of the discontinued operations for the periods indicated:

	Three Months Ended March 31,	
	2011	**2010**
	(in thousands)	
Affinity card revenue	$ 371	$ 491
Non-interest expenses	(1,335)	(2,103)
Loss before income taxes	(964)	(1,612)
Income tax benefit	(405)	(677)
Net loss	$ (559)	$ (935)

3. EARNINGS PER SHARE

Diluted earnings per share is based on the weighted average outstanding common shares during each period, including common stock equivalents. Basic earnings (loss) per share is based on the weighted average outstanding common shares during the period.

Basic and diluted (loss) per share, based on the weighted average outstanding shares, are summarized as follows:

	Three Months Ended March 31,	
	2011	2010
	(in thousands, except per share amounts)	
Basic:		
Net income (loss) available to common stockholders	**$ 2,650**	$ (2,082)
Average common shares outstanding	**80,794**	71,965
Earnings (loss) per share	**$ 0.03**	$ (0.03)

Diluted:		
Net income (loss) available to common stockholders	**$ 2,650**	$ (2,082)
Average common shares outstanding	**81,607**	71,965
Earnings (loss) per share	**$ 0.03**	$ (0.03)

Table of Contents

As of March 31, 2011, the dilutive effect of stock options and restricted stock was 219,501 shares. As of March 31, 2010, all stock options and restricted stock were considered anti-dilutive and excluded for purposes of calculating diluted loss per share.

4. INVESTMENT SECURITIES

Carrying amounts and fair values of investment securities at March 31, 2011 and December 31, 2010 are summarized as follows:

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Securities held-to-maturity				
Collateralized debt obligations	$ 276	$ 439	$ (3)	$ 712
Corporate bonds	45,000		(735)	44,265
Municipal obligations	1,374	18		1,392
Other	1,500			1,500
	$ 48,150	$ 457	$ (738)	$ 47,869

	Amortized Cost	OTTI Recognized in Other Comprehensive Loss	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)				
Securities available-for-sale					
US Government-sponsored agency securities	$ 290,041	$	$	$ (9,185)	$ 280,856
Municipal obligations	312			(11)	301
Adjustable-rate preferred stock	66,137		2,587	(15)	68,709
Corporate securities	5,000			(60)	4,940
Direct obligation and GSE residential mortgage-backed securities	829,651		3,238	(12,801)	820,088
Private label residential mortgage-backed securities	8,513	(1,811)	1,837	(671)	7,868
Trust preferred securities	32,047			(6,202)	25,845
Other	22,394		39	(144)	22,289
	$ 1,254,095	$ (1,811)	$ 7,701	$ (29,089)	$ 1,230,896
Securities measured at fair value					
					$ 10,603

Direct obligation and GSE residential mortgage-backed securities

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(in thousands)			
Securities held-to-maturity				
Collateralized debt obligations	$ 276	$ 459	$	$ 735
Corporate bonds	45,000		(632)	44,368
Municipal obligations	1,375	18		1,393
Other	1,500			1,500
	$ 48,151	$ 477	$ (632)	$ 47,996

17

Table of Contents

	Amortized Cost	OTTI Recognized in Other Comprehensive Loss	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
			(in thousands)		
Securities available-for-sale					
US Government-sponsored agency securities	$ 280,299	$	$ 622	$ (3,329)	$ 277,592
Municipal obligations	312		1	(11)	302
Adjustable-rate preferred stock	66,255		1,410	(422)	67,243
Corporate securities	5,000			(93)	4,907
Direct obligation and GSE residential mortgage-backed securities	772,217		5,804	(8,632)	769,389
Private label residential mortgage-backed securities	9,203	(1,811)	1,811	(1,092)	8,111
Trust preferred securities	32,057			(8,931)	23,126
Other	22,265		99	(121)	22,243
	$ 1,187,608	$ (1,811)	$ 9,747	$ (22,631)	$ 1,172,913
Securities measured at fair value					
U.S. Government-sponsored agency securities					$ 2,511
Direct obligation and GSE residential mortgage-backed securities					11,790
					$ 14,301

The Company conducts an other-than-temporary impairment (OTTI) analysis on a quarterly basis. The initial indication of OTTI for both debt and equity securities is a decline in the market value below the amount recorded for an investment, and the severity and duration of the decline. In determining whether an impairment is OTTI, the Company considers the length of time and the extent to which the market value has been below cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions of its industry, and the Company s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. For marketable equity securities, the Company also considers the issuer s financial condition, capital strength, and near-term prospects.

For debt securities and for ARPS that are treated as debt securities for the purpose of OTTI analysis, the Company also considers the cause of the price decline (general level of interest rates and industry- and issuer-specific factors), the issuer s financial condition, near-term prospects and current ability to make future payments in a timely manner, the issuer s ability to service debt, and any change in agencies ratings at evaluation date from acquisition date and any likely imminent action. For ARPS with a fair value below cost that is not attributable to the credit deterioration of the issuer, such as a decline in cash flows from the security or a downgrade in the security s rating below investment

grade, the Company may avoid recognizing an OTTI charge by asserting that it has the intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.
Gross unrealized losses at March 31, 2011 are primarily caused by interest rate fluctuations, credit spread widening and reduced liquidity in applicable markets. The Company has reviewed securities on which there is an unrealized loss in accordance with its accounting policy for OTTI described above and recorded no impairment charges and $0.1 million for the three months ended March 31, 2011 and 2010, respectively. For 2010, the impairment charge is attributed to the unrealized losses in the Company s CDO portfolio.
The Company does not consider any other securities to be other-than-temporarily impaired as of March 31, 2011 and December 31, 2010. However, without recovery in the near term such that liquidity returns to the applicable markets and spreads return to levels that reflect underlying credit characteristics, additional OTTI may occur in future periods.
Information pertaining to securities with gross unrealized losses at March 31, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

Table of Contents

	March 31, 2011			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities held-to-maturity				
Collateralized debt obligations	$ 3	$ 149	$	$
Corporate bonds	735	44,265		
	$ 738	$ 44,414	$	$

	March 31, 2011			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities available-for-sale				
US Government-sponsored agency securities	$ 9,185	$ 280,856	$	$
Adjustable-rate preferred stock	15	1,730		
Corporate securities	60	4,940		
Direct obligation and GSE residential mortgage-backed securities	12,736	549,565	65	8,362
Municipal obligations	11	245		
Private label residential mortgage-backed securities			671	6,146
Trust preferred securities			6,202	25,845
Other	144	6,106		
	$ 22,151	$ 843,442	$ 6,938	$ 40,353

	December 31, 2010			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities held-to-maturity				
Corporate bonds	$ 632	$ 39,368	$	$
	$ 632	$ 39,368	$	$

Table of Contents

	December 31, 2010			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities available-for-sale				
US Government-sponsored agency securities	$ 3,329	$ 173,561	$	$
Adjustable-rate preferred stock	422	21,549		
Corporate securities	93	4,907		
Direct obligation and GSE residential mortgage-backed securities	8,562	425,248	69	8,798
Municipal obligations	11	206		
Private label residential mortgage-backed securities	2	1,990	1,091	6,121
Trust preferred securities			8,931	23,126
Other	121	6,129		
	$ 12,540	$ 633,590	$ 10,091	$ 38,045

At March 31, 2011 and December 31, 2010, 112 and 84 debt securities (excluding adjustable rate preferred stock, debt obligations and other structured securities), respectively, have unrealized losses with aggregate depreciation of approximately 1.9% and 1.2%, respectively, from the Company s amortized cost basis. These unrealized losses relate primarily to fluctuations in the current interest rate environment. In analyzing an issuer s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysis reports. Since material downgrades have not occurred and management does not have the intent to sell the debt securities for the foreseeable future, none of the securities described in the above table or in this paragraph were deemed to be other than temporarily impaired.

At March 31, 2011 and December 31, 2010, two investments in trust preferred securities have unrealized losses with aggregate depreciation of approximately 19.4% and 27.9%, respectively, from the Company s amortized cost basis. These unrealized losses relate primarily to fluctuations in the current interest rate environment, and specifically to the widening of credit spreads on virtually all corporate and structured debt, which began in 2007. The Company has the intent and ability to hold trust preferred securities for the foreseeable future, none were deemed to be other than temporarily impaired.

At March 31, 2011, the net unrealized loss on trust preferred securities classified as AFS was $6.2 million, compared to $8.9 million at December 31, 2010. The Company actively monitors its debt and other structured securities portfolios classified as AFS for declines in fair value.

The amortized cost and fair value of securities as of March 31, 2011 and December 31, 2010, by contractual maturities, are shown in the table below. The actual maturities of the mortgage-backed securities may differ from their contractual maturities because the loans underlying the securities may be repaid without any penalties. Therefore, these securities are listed separately in the maturity summary. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table of Contents

	March 31, 2011 Amortized Cost	March 31, 2011 Estimated Fair Value	December 31, 2010 Amortized Cost	December 31, 2010 Estimated Fair Value
	(in thousands)			
Securities held-to-maturity				
Due in one year or less	$	$	$	$
After one year through five years	998	1,005	999	1,011
After five years through ten years	40,376	39,712	40,376	39,843
After ten years	5,276	5,652	5,276	5,642
Other	1,500	1,500	1,500	1,500
	$ 48,150	$ 47,869	$ 48,151	$ 47,996
Securities available-for-sale				
Due in one year or less	$ 5	$ 5	$ 13,005	$ 13,632
After one year through five years	18,088	18,450	8,434	8,663
After five years through ten years	293,998	285,254	294,027	291,243
After ten years	89,959	84,809	77,660	67,743
Mortgage backed securities	829,651	820,089	772,217	769,389
Other	22,394	22,289	22,265	22,243
	$ 1,254,095	$ 1,230,896	$ 1,187,608	$ 1,172,913

The following table summarizes the Company s investment ratings position as of March 31, 2011:

Securities ratings profile
As of March 31, 2011

	Investment- grade (1) AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Noninvestment-grade (1) BB+ and below	Totals
	(in thousands)					
Municipal obligations	$ 40	$ 1,373	$	$	$ 261	$ 1,674
Direct & GSE residential mortgage-backed securities	830,691					830,691
Private label residential mortgage-backed securities	5,574				2,294	7,868
U.S. Government-sponsered agency securities	280,856					280,856
Adjustable-rate preferred stock			61,649	7,060		68,709
CDOs & trust preferred securities			25,845		276	26,121
Corporate bonds		5,000	44,940			49,940
Total (2)	$ 1,117,161	$ 6,373	$ 132,434	$ 7,060	$ 2,831	$ 1,265,859

(1) The Company used the average credit rating of the combination of S&P, Moody s and Fitch in the above table where ratings differed.

(2) Securities values are shown at carrying value as of March 31, 2011. Unrated securities consist of CRA investments with a carrying value of $22.3 million and an other investment of $1.5 million.

The following table summarizes the Company s investment ratings position as of December 31, 2010.

Securities ratings profile
As of December 31, 2010

	Investment- grade (1)				Noninvestment-grade (1)	
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Totals
	(in thousands)					
Municipal obligations	$ 40	$ 1,375	$	$	$ 262	$ 1,677
Direct & GSE residential mortgage-backed securities	781,179					781,179
Private label residential mortgage-backed securities	5,796				2,315	8,111
U.S. Government-sponsered agency securities	280,103					280,103
Adjustable-rate preferred stock			60,263	6,980		67,243
CDOs & trust preferred securities			21,681	1,445	276	23,402
Corporate bonds		5,000	44,907			49,907
Total (2)	$1,067,118	$ 6,375	$126,851	$ 8,425	$ 2,853	$1,211,622

(1) The Company used the average credit rating of the combination of S&P, Moody s and Fitch in the above table where ratings differed.

(2) Securities values are shown at carrying value as of December 31, 2010. Unrated securities consist of CRA investments with a carrying value of $22.2 million and an other investment of $1.5 million.

Securities with carrying amounts of approximately $592.5 million and $427.2 million at March 31, 2011 and December 31, 2010 were pledged for various purposes as required or permitted by law.

5. LOANS, LEASES AND ALLOWANCE FOR CREDIT LOSSES

The composition of the Company s loans held for investment portfolio as of March 31, 2011 and December 31, 2010 is as follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Commercial real estate owner occupied	$ 1,299,505	$ 1,223,150
Commercial real estate non-owner occupied	1,086,788	1,038,488
Commercial and industrial	750,240	744,659
Residential real estate	504,453	527,302
Construction and land development	391,749	451,470
Commercial leases	185,695	189,968
Consumer	65,736	71,545
Deferred fees and unearned income,net	(6,159)	(6,040)
	4,278,007	4,240,542
Allowance for credit losses	(106,133)	(110,699)

Total	$ 4,171,874	$ 4,129,843

The following table presents the contractual aging of the recorded investment in past due loans by class of loans excluding deferred fees:

	March 31, 2011					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 days Past Due	Total Past Due	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,275,265	$ 4,220	$ 5,807	$ 14,214	$ 24,241	$ 1,299,506
Non-owner occupied	993,287	1,869	802	3,049	5,720	999,007
Multi-family	86,956		1,055		1,055	88,011
Commercial and industrial						
Commercial	741,764	4,693	2,404	1,379	8,476	750,240
Leases	185,085		610		610	185,695
Construction and land development						
Construction	190,392	3,553		15,387	18,940	209,332
Land	170,257	2,524	3,409	6,226	12,159	182,416
Residential real estate	467,102	12,236	1,860	23,025	37,121	504,223
Consumer	63,488	742	440	1,066	2,248	65,736
Total loans	$ 4,173,596	$ 29,837	$ 16,387	$ 64,346	$ 110,570	$ 4,284,166

	December 31, 2010					
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 days Past Due	Total Past Due	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,195,219	$ 2,512	$ 10,314	$ 15,105	$ 27,931	$ 1,223,150
Non-owner occupied	947,784	1,111	1,022	5,543	7,676	955,460
Multi-family	80,857			2,407	2,407	83,264
Commercial and industrial						
Commercial	741,337	1,644	135	1,543	3,322	744,659
Leases	189,968					189,968
Construction and land development						
Construction	219,382			22,300	22,300	241,682
Land	199,773	338		9,678	10,016	209,789
Residential real estate	491,275	8,574	3,208	24,008	35,790	527,065
Consumer	69,027	655	460	1,403	2,518	71,545
Total loans	$ 4,134,622	$ 14,834	$ 15,139	$ 81,987	$ 111,960	$ 4,246,582

The following table presents the recorded investment in nonaccrual loans and loans past due ninety days or more and still accruing interest by class of loans:

Table of Contents

	March 31, 2011		December 31, 2010	
	Non-accrual	Loans past due 90 days or more and still accruing	Non-accrual	Loans past due 90 days or more and still accruing
	(in thousands)		(in thousands)	
Commercial real estate				
Owner occupied	$ 33,483	$	$ 25,316	$
Non-owner occupied	10,546		12,189	
Multi-family	1,397		2,752	
Commercial and industrial				
Commercial	9,303	21	7,349	151
Leases	610			
Construction and land development				
Construction	15,387		22,300	
Land	10,821		14,223	
Residential real estate	32,567		32,638	
Consumer	132	1,066	232	1,307
Total	$ 114,246	$ 1,087	$ 116,999	$ 1,458

Nonaccrual loans and loans past due 90 days or more and still accruing interest totaled \$115.3 million and \$118.5 million at March 31, 2011 and December 31, 2010, respectively. The reduction in interest income associated with loans on nonaccrual status was approximately \$0.8 million and \$0.7 million for the three months ended March 31, 2011 and 2010, respectively.

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company s risk rating system, the Company classifies problem and potential problem loans as Watch, Substandard, Doubtful , and Loss, which correspond to risk ratings six, seven, eight, and nine, respectively. Substandard loans include those characterized by well defined weaknesses and carry the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful, or risk rated eight, have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The final rating of Loss covers loans considered uncollectible and having such little recoverable value that it is not practical to defer writing off the asset. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management s close attention, are deemed to be Watch, or risk rated six. Risk ratings are updated, at a minimum, quarterly. The following tables present loans by risk rating:

Table of Contents

	March 31, 2011					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,148,999	$ 92,122	$ 58,385	$	$	$ 1,299,506
Non-owner occupied	927,092	39,840	32,075			999,007
Multi-family	85,912	417	1,682			88,011
Commercial and industrial						
Commercial	695,476	29,703	24,331	730		750,240
Leases	181,453	159	4,083			185,695
Construction and land development						
Construction	176,933	5,870	26,529			209,332
Land	118,735	20,153	43,528			182,416
Residential real estate	442,180	14,502	47,541			504,223
Consumer	62,179	1,704	1,853			65,736
Total	$ 3,838,959	$ 204,470	$ 240,007	$ 730	$	$ 4,284,166

	March 31, 2011					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current	$ 3,827,871	$ 199,883	$ 145,258	$ 584	$	$ 4,173,596
Past due 30 - 59 days	9,888	4,116	15,833			29,837
Past due 60 - 89 days	563	471	15,353			16,387
Past due 90 days or more	637		63,563	146		64,346
Total	$ 3,838,959	$ 204,470	$ 240,007	$ 730	$	$ 4,284,166

	December 31, 2010					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Commercial real estate						
Owner occupied	$ 1,075,051	$ 89,731	$ 58,368	$	$	$ 1,223,150
Non-owner occupied	883,867	27,785	43,807			955,460
Multi-family	78,442		4,823			83,264
Commercial and industrial						
Commercial	699,177	27,252	17,426	804		744,659
Leases	186,262	51	3,655			189,968
Construction and land development						
Construction	200,375	12,086	29,220			241,682
Land	141,916	19,070	48,803			209,789
Residential real estate	460,591	17,647	48,828			527,065
Consumer	69,339	1,284	921			71,545

Total	$ 3,795,020	$ 194,905	$ 255,853	$ 804	$	$ 4,246,582

Table of Contents

	December 31, 2010					
	Pass	Watch	Substandard	Doubtful	Loss	Total
	(in thousands)					
Current	$ 3,785,145	$ 188,555	$ 160,318	$ 607	$	$ 4,134,622
Past due 30 - 59 days	6,000	1,875	6,959			14,834
Past due 60 - 89 days	2,459	4,474	8,158	49		15,139
Past due 90 days or more	1,418	1	80,418	148		81,987
Total	$ 3,795,022	$ 194,905	$ 255,853	$ 804	$	$ 4,246,582

The table below reflects recorded investment in loans classified as impaired:

	March 31, 2011	December 31, 2010
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310	**$ 44,561**	$ 45,316
Impaired loans without a specific valuation allowance under ASC 310	**167,176**	193,019
Total impaired loans	**$ 211,737**	$ 238,335
Valuation allowance related to impaired loans	**$ (15,107)**	$ (13,440)

Net impaired loans were $211.7 million at March 31, 2011, a net decrease of $26.6 million from December 31, 2010. This decline is primarily attributable to a decrease in commercial real estate impaired loans, which were $104.7 million at March 31, 2011 compared to $123.9 million at December 31, 2010, a decrease of $19.3 million. In addition, impaired residential real estate loans, impaired construction and land loans and impaired consumer and credit card loans also decreased by $6.0 million, $4.2 million, and $0.3 million, respectively from $42.4 million, $58.4 million, and $0.8 million at December 31, 2010, to $36.4 million, $54.2 million and $0.5 million at March 31, 2011. Impaired commercial and industrial loans increased by $3.1 million from $12.8 million at December 31, 2010 to $15.9 million at March 31, 2011.

The following table presents the impaired loans by class:

	March 31, 2011	December 31, 2010
	(in thousands)	
Commercial real estate		
Owner occupied	$ 58,549	$ 51,157
Non-owner occupied	44,439	67,959
Multi-family	1,682	4,823
Commercial and industrial		
Commercial	11,859	9,148
Leases	4,083	3,655
Construction and land development		
Construction	28,285	31,707
Land	25,940	26,708

Residential real estate	36,411	42,423
Consumer	489	755
Total	$ 211,737	$ 238,335

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans have been charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable, in the table above as Impaired loans without specific valuation allowance under ASC 310. The valuation allowance disclosed above is included in the allowance for credit losses reported in the consolidated balance sheets as of March 31, 2011 and December 31, 2010.
The following table is average investment in impaired loans by loan class:

Table of Contents

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Commercial real estate		
Owner occupied	$ 56,956	$ 48,062
Non-owner occupied	58,215	33,266
Multi-family	2,972	4,302
Commercial and industrial		
Commercial	9,933	16,518
Leases	3,704	224
Construction and land development		
Construction	28,012	28,824
Land	24,317	49,739
Residential real estate	39,215	42,309
Consumer	629	429
Total	$ 223,953	$ 223,673

The following table presents interest income on impaired loans by class:

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Commercial real estate		
Owner occupied	$ 351	$ 442
Non-owner occupied	576	132
Multi-family	4	12
Commercial and industrial		
Commercial	58	22
Leases		
Construction and land development		
Construction	135	99
Land	236	(9)
Residential real estate	56	134
Consumer	4	6
Total	$ 1,420	$ 838

The Company is not committed to lend significant additional funds on these impaired loans.
The following table summarizes nonperforming assets:

	March 31, 2011	**December 31, 2010**
	(in thousands)	
Nonaccrual loans	**$ 114,246**	$ 116,999

Loans past due 90 days or more on accrual status	**1,087**	1,458
Troubled debt restructured loans	**84,094**	116,696
Total nonperforming loans	**199,427**	235,153
Foreclosed collateral	**98,312**	107,655
Total nonperforming assets	**$ 297,739**	$ 342,808

Allowance for Credit Losses

The following table summarizes the changes in the allowance for credit losses:

Table of Contents

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Allowance for credit losses:		
Balance at beginning of period	**$ 110,699**	$ 108,623
Provisions charged to operating expenses:		
Construction and land development	**838**	9,220
Commercial real estate	**6,689**	9,974
Residential real estate	**3,662**	6,094
Commercial and industrial	**(2,603)**	3,181
Consumer	**1,455**	278
Total provision	**10,041**	28,747
Acquisitions		
Recoveries of loans previously charged-off:		
Construction and land development	**416**	409
Commercial real estate	**471**	22
Residential real estate	**269**	231
Commercial and industrial	**829**	1,238
Consumer	**25**	67
Total recoveries	**2,010**	1,967
Loans charged-off:		
Construction and land development	**4,198**	8,638
Commercial real estate	**6,114**	5,884
Residential real estate	**3,282**	5,855
Commercial and industrial	**1,407**	4,757
Consumer	**1,616**	1,479
Total charged-off	**16,617**	26,613
Net charge-offs	**14,607**	24,646
Balance at end of period	**$ 106,133**	$ 112,724

The following table presents loans individually evaluated for impairment by class of loans:

Table of Contents

	March 31, 2011			
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Credit Losses Allocated
	(in thousands)			
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$ 56,135	$ 50,775	$ 5,360	$
Non-owner occupied	44,472	39,616	4,856	
Multi-family	2,161	1,340	821	
Commercial and industrial				
Commercial	6,544	5,131	1,413	
Leases	4,083	4,083		
Construction and land development				
Construction	19,293	15,899	3,394	
Land	30,000	24,155	5,845	
Residential real estate	31,609	25,689	5,920	
Consumer	515	489	26	
With an allowance recorded:				
Commercial real estate				
Owner occupied	7,786	7,774	12	2,436
Non-owner occupied	6,169	4,823	1,346	858
Multi-family	354	342	12	179
Commercial and industrial				
Commercial	6,881	6,728	153	4,416
Leases				
Construction and land development				
Construction	12,386	12,386		1,958
Land	1,984	1,785	199	1,148
Residential real estate	12,104	10,722	1,382	4,112
Consumer				
Total	$ 242,476	$ 211,737	$ 30,739	$ 15,107

Table of Contents

	December 31, 2010			
	Unpaid Principal Balance	Recorded Investment	Partial Charge-offs	Allowance for Credit Losses Allocated
	(in thousands)			
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$ 38,893	$ 36,811	$ 2,082	$
Non-owner occupied	72,705	66,156	6,549	
Multi-family	7,087	4,478	2,609	
Commercial and industrial				
Commercial	9,155	4,780	4,375	
Leases	3,655	3,655		
Construction and land development				
Construction	23,214	19,217	3,997	
Land	31,237	24,807	6,430	
Residential real estate	38,936	32,593	6,343	
Consumer	548	522	26	
With an allowance recorded:				
Commercial real estate				
Owner occupied	15,684	14,346	1,338	3,873
Non-owner occupied	1,961	1,804	157	530
Multi-family	358	346	12	179
Commercial and industrial				
Commercial	4,520	4,367	153	3,170
Leases				
Construction and land development				
Construction	12,490	12,490		1,722
Land	5,018	1,901	3,117	1,124
Residential real estate	11,598	9,830	1,768	2,716
Consumer	232	232		126
Total	$ 277,291	$ 238,335	$ 38,956	$ 13,440

The following table presents the balance in the allowance for credit losses and the recorded investment in loans by portfolio segment and based on impairment method:

	March 31, 2011							
	Commercial Real Estate - Owner Occupied	Commercial Real Estate - Non Owner Occupied	Commercial and Industrial	Residential Real Estate	Construction and Land Development	Commercial Leases	Consumer	Total
	(in thousands)							
Allowance for credit losses:								
	$ 2,436	$ 1,037	$ 4,416	$ 4,112	$ 3,106	$	$	$ 15,107

Ending balance attributable to loans individually evaluated for impairment								
Collectively evaluated for impairment	12,819	17,834	20,384	17,395	14,543	2,820	5,231	91,026
Acquired with deteriorated credit quality								
Total ending allowance	$ 15,255	$ 18,871	$ 24,800	$ 21,507	$ 17,649	$ 2,820	$ 5,231	$ 106,133

	December 31, 2010							
	Commercial Real Estate - Owner Occupied	Commercial Real Estate - Non-Owner Occupied	Commercial and Industrial	Residential Real Estate	Construction and Land Development	Commercial Leases	Consumer	Total
	(in thousands)							
Allowance for credit losses								
Ending balance attributable to loans individually evaluated for impairment	$ 3,873	$ 709	$ 3,170	$ 2,716	$ 2,846	$	$ 126	$ 13,440
Collectively evaluated for impairment	11,108	17,353	23,981	18,173	17,741	3,631	5,272	97,259
Acquired with deteriorated credit quality								
Total ending allowance	$ 14,981	$ 18,062	$ 27,151	$ 20,889	$ 20,587	$ 3,631	$ 5,398	$ 110,699

In the first quarter of 2011, the Company modified its allowance for credit loss calculation to bring the loss factors current instead of a one quarter lag and changed its premium calculation for net graded and watch loans to use a more quantitative method that better reflects the additional risk. The net effect of the change compared to the calculation method used at December 31, 2010 was to increase provision and allowance for credit losses by $3.7 million. The net effect by portfolio segment was to increase provision for credit losses for commercial real estate, construction and land, residential real estate and consumer loan portfolios by $2.0 million, $1.2 million, $0.6 million, and $0.2 million, respectively, and decrease provision for credit losses on the commercial and industrial portfolio by $0.3 million.

Loan Purchases and Sales

In the first quarter of 2011, the Company purchased $30.0 million of loans. The purchased loans were commercial and industrial. In the first quarter of 2010, the Company purchased $19.7 million of loans and leases. The purchased loans consisted of $18.1 million commercial leases and $1.6 million owner occupied commercial real estate. The Company had no significant loan sales in the first quarter of 2010 and 2011. The Company held no loans for sale at March 31, 2011 and December 31, 2010.

6. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

The following table presents the changes in other assets acquired through foreclosure:

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Balance, beginning of period	$ 107,655	$ 83,347
Additions	11,175	32,953
Dispositions	(16,604)	(9,892)
Valuation adjustments in the period, net	(3,914)	(771)

Balance, end of period	$ 98,312	$ 105,637

At March 31, 2011 and 2010, the majority of the Company s repossessed assets were properties located in Nevada.

7. INCOME TAXES

The reconciliation between the statutory federal income tax rate and the Company s effective tax rate is summarized as follows:

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Income tax at statutory rate	**$ 3,409**	$ (85)
Increase (decrease) resulting from:		
State income taxes, net of federal benefits	**566**	(290)
Dividends received deductions	**(247)**	(83)
Bank-owned life insurance	**(414)**	(252)
Tax-exempt income	**(67)**	(76)
Nondeductible expenses	**97**	95
Deferred tax asset valuation allowance		(957)
Equity award expense write off	**617**	
Other, net	**68**	86
	$ 4,029	$ (1,562)

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. For the three months ended March 31, 2011, the net deferred tax assets decreased $0.1 million to $79.8 million. This decrease in the net deferred tax asset was primarily the result of the net operating income of the Company for the current period, offset by an increase in the deferred tax asset related to unrealized losses on available for sale securities.

Uncertain Tax Position

The Company files income tax returns in the U.S. federal jurisdiction and in various states. With few exceptions, the Company is no longer subject to U.S. federal, state or local tax examinations by tax authorities for years before 2006. The Internal Revenue Service is currently examining the Company s 2008 net operating loss carryback claim.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period in which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

The Company would recognize interest accrued related to unrecognized tax benefits in tax expense. The Company has not recognized or accrued any interest or penalties for the periods ended December 31, 2010 or March 31, 2011.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007, which were incorporated into ASC 740. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors, including past experience and interpretation of tax law applied to the facts of each matter.

The Internal Revenue Service s Examination Division issued a notice of proposed deficiency, on January 10, 2011, proposing a taxable income adjustment of $136.7 million related to deductions taken on our 2008 tax return in connection with the partial worthlessness of collateralized debt obligations, or CDOs. The use of these deductions on our 2008 tax return resulted in an approximately $40-million tax refund for the 2006 and 2007 taxable periods. The Company filed a protest of the proposed deficiency, which is expected to cause the matter to be referred to the Internal Revenue Service s Appeals Division. Although the Company believes that it is more likely than not that the CDO-related deductions will be respected for U.S. federal income tax purposes, there can be no assurance that the Internal Revenue Service will not successfully challenge some or all of such deductions. The Company has not accrued a reserve for this potential exposure.

Table of Contents

8. COMMITMENTS AND CONTINGENCIES

Unfunded Commitments and Letters of Credit

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the consolidated balance sheets.

Lines of credit are obligations to lend money to a borrower. Credit risk arises when the borrowers current financial condition may indicate less ability to pay than when the commitment was originally made. In the case of standby letters of credit, the risk arises from the possibility of the failure of the customer to perform according to the terms of a contract. In such a situation, the third party might draw on the standby letter of credit to pay for completion of the contract and the Company would look to its customer to repay these funds with interest. To minimize the risk, the Company uses the same credit policies in making commitments and conditional obligations as it would for a loan to that customer.

Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party in borrowing arrangements. The Company generally has recourse to recover from the customer any amounts paid under the guarantees. Typically, letters of credit issued have expiration dates within one year.

A summary of the contractual amounts for unfunded commitments and letters of credit are as follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Commitments to extend credit, including unsecured loan commitments of $162,386 at March 31, 2011 and $156,517 at December 31, 2010	**$ 775,178**	$ 702,336
Credit card commitments and financial guarantees	**322,264**	322,798
Standby letters of credit, including unsecured letters of credit of $3,425 at March 31, 2011 and $3,076 at December 31, 2010	**29,840**	28,013
	$ 1,127,282	$ 1,053,147

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral.

The Company has exposure to credit losses from unfunded commitments and letters of credit. As funds have not been disbursed on these commitments, they are not reported as loans outstanding. Credit losses related to these commitments are not included in the allowance for credit losses reported in Note 5, Loans, Leases and Allowance for Credit Losses of these Consolidated Financial Statements and are accounted for as a separate loss contingency as a liability. This loss contingency for unfunded loan commitments and letters of credit was $0.2 million and $0.3 million as of March 31, 2011 and December 31, 2010, respectively. Changes to this liability are adjusted through other non-interest expense.

Concentrations of Lending Activities

The Company s lending activities are primarily driven by the customers served in the market areas where the Company has branch offices in the States of Nevada, California and Arizona. The Company monitors concentrations within five broad categories: geography, industry, product, call code, and collateral. The Company grants commercial, construction, real estate and consumer loans to customers through branch offices located in the Company s primary markets. The Company s business is concentrated in these areas and the loan portfolio includes significant credit exposure to the commercial real estate market of these areas. As of March 31, 2011 and December 31, 2010, commercial real estate related loans accounted for approximately 65% and 64% of total loans, respectively, and approximately 3% and 2% of commercial real estate related loans, respectively, are secured by undeveloped land. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 75%. Approximately 54% of these commercial real estate loans were owner occupied at March 31, 2011 and December 31, 2010. In addition, approximately 3% of total loans were unsecured as of March 31, 2011 and December 31, 2010.

Contingencies

The Company is involved in various lawsuits of a routine nature that are being handled and defended in the ordinary course of the Company s business. Expenses are being incurred in connection with defending the Company, but in the opinion of Management, based in part on consultation with legal counsel, the resolution of these lawsuits will not have a material impact on the Company s financial position, results of operations, or cash flows.

Lease Commitments

The Company leases the majority of its office locations and many of these leases contain multiple renewal options and provisions for increased rents. Total rent expense of $1.3 million is included in occupancy expenses for the three month periods ended March 31, 2011 and 2010, respectively.

9. FAIR VALUE ACCOUNTING

The Company adopted SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), effective January 1, 2007. This standard was subsequently codified under FASB ASC 825, *Financial Instruments* (ASC 825). At the time of adoption, the Company elected to apply this fair value option (FVO) treatment to the following instruments:

Junior subordinated debt;

All investment securities previously classified as held to maturity, with the exception of tax-advantaged municipal bonds; and

All fixed-rate securities previously classified as available for sale.

The Company continues to account for these items under the fair value option. There were no financial instruments purchased by the Company in the first quarter of 2011 and during 2010 which met the ASC 825 fair value election criteria, and therefore, no additional instruments have been added under the fair value option election.

All securities for which the fair value measurement option had been elected are included in a separate line item on the balance sheet entitled securities measured at fair value.

ASC 825 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 825 are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly, in the market;

Level 3 Valuation is generated from model-based techniques where all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of matrix pricing, discounted cash flow models and similar techniques.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Table of Contents

For the three months ended March 31, 2011 and 2010, gains and losses from fair value changes included in the Consolidated Statement of Operations were as follows:

	Changes in Fair Values for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
Description	**Unrealized Gain/(Loss) on Assets and Liabilities Measured at Fair Value, Net**	**Interest Income on Securities**	**Interest Expense on Junior Subordinated Debt**	**Total Changes Included in Current-Period Earnings**
	(in thousands)			
Three Months Ended March 31, 2011				
Securities measured at fair value	$ (66)	$ 8	$	$ (58)
Junior subordinated debt			(249)	(249)
	$ (66)	$ 8	$ (249)	$ (307)
Three Months Ended March 31, 2010				
Securities measured at fair value	$ 183	$ 187	$	$ 370
Junior subordinated debt	118		(256)	(138)
	$ 301	$ 187	$ (256)	$ 232

	March 31, 2011 (in thousands
Net gains and (losses) recognized during the period on trading securities	$ (66)
Less: net gains and (losses) recognized during the period on trading securities sold during the period	
Unrealized gains and (losses) recognized during the reporting period on trading securities still held at the reporting date	$ (66)

The difference between the aggregate fair value of junior subordinated debt ($43.0 million) and the aggregate unpaid principal balance thereof ($66.5 million) was $23.5 million at March 31, 2011.

Interest income on securities measured at fair value is accounted for similarly to those classified as available-for-sale and held-to-maturity. As of January 1, 2007, a discount or premium was calculated for each security based upon the difference between the par value and the fair value at that date. These premiums and discounts are recognized in interest income over the term of the securities. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations. Interest expense on junior subordinated debt is also determined under a constant yield calculation.

Fair value on a recurring basis

Financial assets and financial liabilities measured at fair value on a recurring basis include the following:

AFS Securities: Adjustable-rate preferred securities are reported at fair value utilizing Level 1 inputs. Other securities classified as AFS are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things.

Table of Contents

Securities measured at fair value: All of the Company s securities measured at fair value, the majority of which are mortgage-backed securities, are reported at fair value utilizing Level 2 inputs in the same manner as described above for securities available for sale.

Interest rate swap: Interest rate swaps are reported at fair value utilizing Level 2 inputs. The Company obtains dealer quotations to value its interest rate swaps.

Junior subordinated debt: The Company estimates the fair value of its junior subordinated debt using a discounted cash flow model which incorporates the effect of the Company s own credit risk in the fair value of the liabilities (Level 3). The Company s cash flow assumptions were based on the contractual cash flows based as the Company anticipates that it will pay the debt according to its contractual terms. The Company evaluated priced offerings on individual issuances of trust preferred securities and estimated the discount rate based, in part, on that information. The Company estimated the discount rate at 5.717%, which is a 541 basis point spread over 3 month LIBOR (0.307% as of March 31, 2011). As of December 31, 2010, the Company estimated the discount rate at 5.873%, which is a 557 basis point spread over 3 month LIBOR (0.303%).

The fair value of these assets and liabilities were determined using the following inputs at March 31, 2011 and December 31, 2010:

	Fair Value Measurements at Reporting Date Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in thousands)			
March 31, 2011				
Assets:				
Securities measured at fair value				
Direct obligation & GSE residential mortgage-backed securities	$	$ 10,603	$	$ 10,603
Securities available for sale				
U.S. Government-sponsored agency securities	$	$ 280,856	$	$ 280,856
Municipal Obligations		301		$ 301
Direct obligation & GSE residential mortgage-backed securities		820,088		$ 820,088
Private label residential mortgage-backed securities		7,868		$ 7,868
Adjustable-rate preferred stock	68,709			$ 68,709
Trust preferred	25,845			$ 25,845
Corporate debt securities	4,940			$ 4,940
Other	22,289			$ 22,289
	$ 121,783	$ 1,109,113	$	$ 1,230,896

Interest rate swaps	$	$ 812	$	$ 812

Liabilities:	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Fair Value**
Junior subordinated debt	$	$	$ 43,034	$ 43,034
Interest rate swaps	$	$ 812	$	$ 812

36

Table of Contents

Description	As of December 31, 2010	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Securities available for sale	$ 1,172,913	$ 117,519	$ 1,055,394	$
Securities measured at fair value	14,301		14,301	
Interest rate swaps	1,396		1,396	
Total	$ 1,188,610	$ 117,519	$ 1,071,091	$
Liabilities:				
Junior subordinated debt	$ 43,034	$	$	$ 43,034
Interest rate swaps	1,396		1,396	
Total	$ 44,430	$	$ 1,396	$ 43,034

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Junior Subordinated Debt (in thousands)
Beginning balance January 1, 2011	$ (43,034)
Total gains or losses (realized/unrealized)	
Included in earnings	
Included in other comprehensive income	
Purchases, issuances, and settlements, net	
Transfers to held-to-maturity	
Transfers in and/or out of Level 3	
Ending balance March 31, 2011	$ (43,034)
The amount of total 2011 gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date	$

The amount of total 2010 gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date	$	118

Fair value on a nonrecurring basis

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents such assets carried on the balance sheet by caption and by level within the ASC 825 hierarchy as of March 31, 2011:

Table of Contents

	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
		(in thousands)		
As of March 31, 2011:				
Impaired loans with specific valuation allowance	$29,454	$	$	$29,454
Impaired loans without specific valuation allowance	53,509			53,509
Goodwill valuation of reporting units	25,925			25,925
Other assets acquired through foreclosure	98,312			98,312
Collateralized debt obligations	712			712

The following table presents such assets carried on the balance sheet by caption and by level within the ASC 825 hierarchy:

	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
		(in thousands)		
As of December 31, 2010:				
Impaired loans with specific valuation allowance	$ 31,876	$	$	$ 31,876
Impaired loans without specific valuation allowance	66,355			66,355
Goodwill valuation of reporting units	25,925			25,925
Other assets acquired through foreclosure	107,655			107,655
Collateralized debt obligations	735			735

Impaired loans: The specific reserves for collateral dependent impaired loans are based on the fair value of the collateral. The fair value of collateral is determined based on third-party appraisals. In some cases, adjustments are made to the appraised values due to various factors, including age of the appraisal (which are generally obtained every six months), age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, such as when a current appraised value is not available or management determines the fair value of the collateral is further impaired below appraised value and there is no observable market price, the resulting fair value measurement has been categorized as a Level 3 measurement. These Level 3 impaired loans had an aggregate carrying amount of $44.6 million and specific reserves in the allowance for loan losses of $15.1 million at March 31, 2011.

Goodwill: In accordance with FASB ASC 350, *Intangibles Goodwill and Other* (ASC 350), goodwill has been written down to its implied fair value of $25.9 million by charges to earnings in prior periods. Some of the inputs used to determine the implied fair value of the Company and the corresponding amount of the impairment included the quoted market price of our common stock, market prices of common stocks of other banking organizations, common stock trading multiples, discounted cash flows, and inputs from comparable transactions. The Company s adjustments were primarily based on the Company s assumptions and therefore the resulting fair value measurement was determined to be level 3.

Other assets acquired through foreclosure: Other assets acquired through foreclosure consist of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets classified as other assets acquired through foreclosure and other repossessed property and are initially reported at the fair value determined by independent appraisals using appraised value, less cost to sell. Such properties are generally re-appraised every six months. There is risk for subsequent volatility. Costs relating to the development or improvement of the assets are capitalized and costs relating to holding the assets are charged to expense. The Company had $98.3 million of such assets at March 31, 2011. When significant adjustments were based on unobservable inputs, such as when a current appraised value is not available or management determines the fair value of the collateral is further impaired below appraised value and there is no observable market price, the resulting fair value measurement has been categorized as a Level 3 measurement.

Table of Contents

Collateralized debt obligations: The Company previously wrote down its trust-preferred CDO portfolio to $0.3 million when it determined these CDOs were other-than-temporarily impaired under generally accepted accounting principles due primarily to credit rating downgrades and the increase in deferrals and defaults by the issuers of the underlying CDOs. These CDOs represent interests in various trusts, each of which is collateralized with trust preferred debt issued by other financial institutions.

Credit vs. non-credit losses

The Company elected to apply provisions of ASC 320 as of January 1, 2009 to its AFS and HTM investment securities portfolios. The OTTI was separated into (a) the amount of total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the total OTTI related to the credit loss was recognized in earnings. The amount of the total impairment related to all other factors was recognized in other comprehensive income. The OTTI was presented in the statement of operations with an offset for the amount of the total OTTI that was recognized in other comprehensive income.

If the Company does not intend to sell and it is not more likely than not that the Company will be required to sell the impaired securities before recovery of the amortized cost basis, the Company recognizes the cumulative effect of initially applying this FSP as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income, including related tax effects. The Company elected to early adopt ASC 320 on its impaired securities portfolio since it provides more transparency in the consolidated financial statements related to the bifurcation of the credit and non-credit losses.

The Company recorded no impairment credit losses related to investment securities for the three months ended March 31, 2011. For the three months ended March 31, 2010, the Company determined that certain collateralized mortgage debt securities contained credit losses. The impairment credit loss related to these debt securities for the three months ended March 31, 2010 was $0.1 million.

The following table presents a rollforward of the amount related to impairment credit losses recognized in earnings for the three months ended March 31, 2011 and 2010:

Debt Security Credit Losses
Recognized in Other Comprehensive Income/Earnings
For the Three Months Ended March 31, 2011

		Private Label Mortgage-Backed Securities (in thousands)
Beginning balance of impairment losses held in other comprehensive income	$	(1,811)
Current period other-then temporary impairment credit recognized through earnings		
Reductions for securities sold during the period		
Additions or reductions in credit losses due to change of intent to sell		
Reductions for increases in cash flows to be collected on impaired securities		
Ending balance of net unrealized gains and (losses) held in other comprehensive income	$	(1,811)

Table of Contents

Debt Security Credit Losses
Recognized in Other Comprehensive Income/Earnings
For the Three Months Ended March 31, 2010

	Debt Obligations and Structured Securities	Private Label Mortgage-Backed Securities
	(in thousands)	
Beginning balance of impairment losses held in other comprehensive income	$ (544)	$ (1,811)
Current period other-then temporary impairment credit recognized through earnings	103	
Reductions for securities sold during the period		
Additions or reductions in credit losses due to change of intent to sell		
Reductions for increases in cash flows to be collected on impaired securities		
Ending balance of net unrealized gains and (losses) held in other comprehensive income	$ (441)	$ (1,811)

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Company s financial instruments is as follows:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Cash and due from banks	$ 99,875	$ 99,875	$ 87,984	$ 87,984
Federal funds sold			918	918
Money market investments	29,947	29,947	37,733	37,733
Investment securities measured at fair value	10,603	10,603	14,301	14,301
Investment securities available for sale	1,230,896	1,230,896	1,172,913	1,172,913
Investment securities held to maturity	48,150	47,869	48,151	47,996
Derivatives	812	812	1,396	1,396
Restricted stock	35,425	35,425	36,877	36,877
Loans, net	4,171,874	3,899,313	4,129,843	3,933,827
Accrued interest receivable	19,830	19,830	19,433	19,433
Financial liabilities:				
Deposits	5,497,464	5,499,489	5,338,441	5,341,701
Accrued interest payable	3,935	3,935	6,085	6,085
Customer repurchases	163,404	163,404	109,409	109,409
Other borrowed funds	73,049	82,174	72,964	85,454

Junior subordinated debt	**43,034**	**43,034**	43,034	43,034
Derivatives	**812**	**812**	1,396	1,396

Interest rate risk

The Company assumes interest rate risk (the risk to the Company s earnings and capital from changes in interest rate levels) as a result of its normal operations. As a result, the fair values of the Company s financial instruments as well as its future net interest income will change when interest rate levels change and that change may be either favorable or unfavorable to the Company.

Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value and net interest income resulting from hypothetical changes in interest rates. If potential changes to net portfolio value and net interest income resulting from hypothetical interest rate changes are not within the limits established by the Board of Directors, the Board of Directors may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits. As of March 31, 2011, the Company s interest rate risk profile was within Board-approved limits.

Each of the Company s subsidiary banks has an Asset and Liability Management Committee charged with managing interest rate risk within Board approved limits. Such limits may vary by bank based on local strategy and other considerations, but in all cases, are structured to prohibit an interest rate risk profile that is significantly asset or liability sensitive. There also exists an Asset and Liability Management Committee at the holding company levels that reviews the interest rate risk of each subsidiary bank, as well as an aggregated position for the entire Company.

Fair value of commitments

The estimated fair value of standby letters of credit outstanding at March 31, 2011 and December 31, 2010 is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at March 31, 2011 and December 31, 2010.

11. SEGMENTS

The Company provides a full range of banking services and investment advisory services through its consolidated subsidiaries. Applicable guidance provides that the identification of reportable segments be on the basis of discreet business units and their financial information to the extent such units are reviewed by the entity s chief decision maker. The Company adjusted segment reporting composition during 2010 to more accurately reflect the way the Company manages and assesses the performance of the business. During 2010, the Company sold its wholly owned trust subsidiary, discontinued a portion of its credit card services, and merged from five bank subsidiaries to three.

The re-defined structure at December 31, 2010 consists of the following segments: Bank of Nevada , Western Alliance Bank , Torrey Pines Bank and Other (Western Alliance Bancorporation holding company, Western Alliance Equipment Finance, Shine Investment Advisory Services, Inc., Premier Trust until September 1, 2010, and the discontinued operations portion of the credit card services). All prior period balances were reclassified to reflect the change in structure.

The accounting policies of the reported segments are the same as those of the Company as described in Note 1, *Summary of Significant Accounting Policies.* Transactions between segments consist primarily of borrowed funds and loan participations. Federal funds purchased and sold and other borrowed funding transactions that resulted in inter-segment profits were eliminated for reporting consolidated results of operations. Loan participations were recorded at par value with no resulting gain or loss. The Company allocated centrally provided services to the operating segments based upon estimated usage of those services.

The following is a summary of selected operating segment information as of and for the periods ended March 31, 2011 and 2010:

Western Alliance Bancorporation and Subsidiaries
Operating Segment Results
Unaudited

	Bank of Nevada	Western Alliance Bank	Torrey Pines Bank*	Other	Inter-segment elimi-nations	Consoli-dated Company
			(in millions)			
At March 31, 2011						
Assets	$ 2,778.3	$ 1,979.8	$ 1,590.7	$ 728.4	$ (672.4)	$ 6,404.8
Gross loans and deferred fees, net	1,872.1	1,344.6	1,104.1		(42.8)	4,278.0
Less: Allowance for credit losses	(70.6)	(19.7)	(15.8)			(106.1)
Net loans	1,801.5	1,324.9	1,088.3		(42.8)	4,171.9
Goodwill	23.2			2.7		25.9
Deposits	2,390.2	1,693.1	1,416.7		(2.5)	5,497.5
Stockholders equity	310.4	165.8	137.0	608.7	(620.3)	601.6
No. of branches	12	16	11			39
No. of FTE	407	210	193	84		894
			(in thousands)			
Three Months Ended March 31, 2011:						
Net interest income	$ 26,428	$ 19,656	$ 17,317	$ (2,303)	$	$ 61,098
Provision for credit losses	7,003	1,600	1,437			10,041
Net interest income (loss) after provision for credit losses	19,425	18,056	15,880	(2,303)		51,057
Non-interest income	3,392	2,031	1,739	(332)		6,830
Non-interest expense	(21,672)	(12,383)	(10,491)	(3,600)		(48,146)
Income (loss) from continuing operations before income taxes	1,145	7,704	7,128	(6,235)		9,741
Income tax expense (benefit)	251	2,849	3,106	(2,177)		4,029
Income(loss) from continuing operations	894	4,855	4,022	(4,058)		5,712
Loss from discontinued operations, net				(559)		(559)
Net income (loss)	$ 894	$ 4,855	$ 4,022	$ (4,617)	$	$ 5,153

* Excludes discontinued operations

Table of Contents

Western Alliance Bancorporation and Subsidiaries
Operating Segment Results
Unaudited

	Bank of Nevada	Western Alliance Bank	Torrey Pines Bank*	Other	Inter-segment elimi-nations	Consoli-dated Company
			(in millions)			
At March 31, 2010:						
Assets	$ 2,775.7	$ 1,911.4	$ 1,393.5	$ 621.5	$ (605.9)	$ 6,096.2
Gross loans and deferred fees, net	2,013.1	1,154.3	934.7		(43.0)	4,059.1
Less: Allowance for credit losses	(70.2)	(25.8)	(16.7)			(112.7)
Net loans	1,942.9	1,128.5	918.0		(43.0)	3,946.4
Goodwill	23.2			2.7		25.9
Deposits	2,267.1	1,710.7	1,215.7		(3.4)	5,190.1
Stockholders equity	295.9	130.5	127.7	580.9	(559.2)	575.8
No. of branches	12	17	9			38
No. of FTE	441	238	206	63		948
			(in thousands)			
Three Months Ended March 31, 2010:						
Net interest income	$ 25,657	$ 14,886	$ 14,314	$ (139)	$	$ 54,718
Provision for credit losses	22,034	3,988	2,725			28,747
Net interest income after provision for credit losses	3,623	10,898	11,589	(139)		25,971
Non-interest income	7,964	1,866	896	3,446	457	14,629
Noninterest expense	(16,170)	(10,761)	(11,368)	(4,248)	1,704	(40,843)
Income (loss) from continuing operations before income taxes	(4,583)	2,003	1,117	(941)	2,161	(243)
Income tax expense (benefit)	(1,583)	861	628	(1,468)		(1,562)
Income(loss) from continuing operations	(3,000)	1,142	489	527	2,161	1,319
Loss from discontinued operations, net				(935)		(935)
Net income (loss)	$ (3,000)	$ 1,142	$ 489	$ (408)	$ 2,161	$ 384

* Excludes discontinued operations

12. STOCKHOLDERS EQUITY

Stock-based Compensation

For the three months ended March 31, 2011 and 2010, 39,000 and 111,000 stock options with a weighted average exercise price of $7.27 and $5.21 per share, respectively, were granted to certain key employees and directors. The Company estimates the fair value of each option award on the date of grant using a Black-Scholes valuation model. The weighted average grant date fair value of these options was $4.00 and $3.12 per share, respectively. These stock options generally have a vesting period of 4 years and a contractual life of 7 years.

As of March 31, 2011, there were 2.4 million options outstanding, compared with 2.8 million at March 31, 2010.

For the three months ended March 31, 2011 and 2010, the Company recognized stock-based compensation expense of $0.8 million and $1.0 million, respectively.

For the three months ended March 31, 2011, 515,834 shares of restricted stock were granted. The Company estimates the compensation cost for restricted stock grants based upon the grant date fair value. Generally, these restricted stock grants have a three year vesting period. The aggregate grant date fair value for the restricted stock issued in the three month period ended March 31, 2011 was $3.8 million.

There were approximately 1,335,166 restricted shares outstanding at March 31, 2011. For the three months ended March 31, 2011, the Company recognized stock-based compensation related to restricted stock grants of $0.7 million compared to $1.2 million for the three months ended March 31, 2010 related to the Company s restricted stock plan.

Table of Contents

Stock Issuance

In the third quarter of 2010, the Company completed a public offering of 8,050,000 shares of common stock, including 1,050,000 shares pursuant to the underwriter s over-allotment option, at a public offering price of $6.25 per share, for an aggregate offering price of $50.3 million. The net proceeds of the offering were approximately $47.6 million.

13. BORROWED FUNDS

The following table summarizes the Company s borrowings as of March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
	(in thousands)	
Long Term		
Other long term debt	**$ 75,000**	$ 75,000

The Company maintains lines of credit with the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB). The Company s borrowing capacity is determined based on collateral pledged, generally consisting of investment securities and loans, at the time of the borrowing. The Company also maintains credit lines with other sources secured by pledged securities.

On August 25, 2010, the Company completed a public offering of $75 million in principal Senior Notes due in 2015 bearing interest of 10%. The net proceeds of the offering were $72.8 million.

The Banks have entered into agreements with other financial institutions under which they can borrow up to $40.0 million on an unsecured basis. The lending institutions will determine the interest rate charged on borrowings at the time of the borrowing.

As of March 31, 2011 and December 31, 2010, the Company had additional available credit with the FHLB of approximately $787.6 million and $676.3 million, respectively and with the FRB of approximately $551.1 million and $547.0 million, respectively.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion is designed to provide insight into Management s assessment of significant trends related to the Company s consolidated financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. This Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2010 and unaudited interim consolidated financial statements and notes hereto and financial information appearing elsewhere in this report. Unless the context requires otherwise, the terms Company, us, we, and our refer to Western Alliance Bancorporation and its wholly-owned subsidiaries on a consolidated basis.

Forward-Looking Information

This report contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. In addition, the words anticipates, expects, believes, estimates and intends or the negative of these terms or other comparable terminology constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Except as required by law, the Company disclaims any obligation to update any such forward-looking statements or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Forward-looking statements contained in this Quarterly Report on Form 10-Q involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company and may cause our actual results to differ significantly from historical results and those expressed in any forward-looking statement. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission and the following factors that could cause actual results to differ materially from those presented:

- dependency on real estate and events that negatively impact real estate;
- high concentration of commercial real estate, construction and development and commercial and industrial loans;
- actual credit losses may exceed expected losses in the loan portfolio;
- possible need for a valuation allowance against deferred tax assets;
- stock transactions could require revalue of deferred tax assets;
- exposure of financial instruments to certain market risks may cause volatility in earnings;
- dependence on low-cost deposits;
- ability to borrow from FHLB or FRB;
- events that further impair goodwill;
- increase in the cost of funding as the result of changes to our credit rating;
- expansion strategies may not be successful,
- our ability to control costs,

- risk associated with changes in internal controls and processes;
- our ability to compete in a highly competitive market;
- our ability to recruit and retain qualified employees, especially seasoned relationship bankers;
- the effects of terrorist attacks or threats of war;
- risk of audit of U.S. federal tax deductions;
- perpetration of internal fraud;
- risk of operating in a highly regulated industry and our ability to remain in compliance;
- the effects of interest rates and interest rate policy;
- exposure to environmental liabilities related to the properties we acquire title;
- recent legislative and regulatory changes including Emergency Economic Stabilization Act of 2008, or EESA, the American Recovery and Reinvestment Act of 2009, or ARRA, and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the rules and regulations that might be promulgated thereunder; and
- risks related to ownership and price of our common stock.

For additional information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010.

Financial Overview and Highlights

45

Western Alliance Bancorporation is a multi-bank holding company headquartered in Phoenix, Arizona that provides full service banking, lending, financial planning and investment advisory services through its subsidiaries.

Financial Result Highlights for the First Quarter of 2011

Net income available to common stockholders for the Company of $2.7 million, or $0.03 per diluted share for the first quarter of 2011 compared to net loss of $2.1 million, or ($0.03) loss per diluted share for the first quarter of 2010.

The significant factors impacting earnings of the Company during the first quarter of 2011 were:

During the first quarter 2011, the Company improved its net interest margin to 4.35% compared to 4.17% for the first quarter of 2010 and its net interest spread to 4.06% compared to 3.84%. The increase is attributed to the reduction in the cost of interest bearing liabilities to 1.05% from 1.40%. The increased margin of 18 basis points was primarily a result of downward repricing of deposits to 0.81% from 1.32%. The Company has reported six consecutive quarters of increases in net interest income.

Net interest income increased by 11.7% to $61.1 million for the first quarter of 2011 compared to $54.7 million for the first quarter of 2010.

Provision for credit losses declined to $10.0 million for the first quarter of 2011 compared to $28.7 million for the first quarter of 2010 as problem assets stabilized.

During the first quarter 2011, the Company increased deposits by $159.0 million to $5.50 billion at March 31, 2011 from $5.34 billion at December 31, 2010.

The Company experienced loan growth of $37.5 million to $4.28 billion at March 31, 2011 from $4.24 billion at December 31, 2010.

Key asset quality ratios improved for the three months ended March 31, 2011 compared to 2010. Nonaccrual loans and repossessed assets to total assets improved to 3.32% from 4.17% for the comparable periods and nonaccrual loans to gross loans improved to 2.67% at March 31, 2011 compared to 3.66% at March 31, 2010.

Net loan charge-offs were $14.6 million for the first quarter, down 40.7% from $24.6 million for the first quarter of 2010.

The impact to the Company from these items, and others of both a positive and negative nature, will be discussed in more detail as they pertain to the Company s overall comparative performance for the three months ended March 31, 2011 throughout the analysis sections of this report.

A summary of our results of operations and financial condition and select metrics is included in the following table:

	Three Months Ended March 31, 2011	2010
	(in thousands, except per share amounts)	
Net income/(loss) available to common stockholders	**$ 2,650**	$ (2,082)
Basic earnings (loss) per share	**0.03**	(0.03)
Diluted earnings (loss) per share	**0.03**	(0.03)
Total assets	**$ 6,404,836**	$ 5,753,279
Gross loans	**$ 4,278,007**	$ 4,079,639
Total deposits	**$ 5,497,464**	$ 4,722,102
Net interest margin	**4.35%**	4.17%
Return on average assets	**0.33%**	0.03%
Return on average stockholders equity	**3.41%**	0.27%

As a bank holding company, management focuses on key ratios in evaluating the Company s financial condition and results of operations. In the current economic environment, key ratios regarding asset credit quality and efficiency are more informative as to the financial condition of the Company than those utilized in a more normal economic period such as return on equity and return on assets.

Asset Quality

For all banks and bank holding companies, asset quality plays a significant role in the overall financial condition of the institution and results of operations. The Company measures asset quality in terms of nonaccrual loans as a percentage of gross loans, and net charge-offs as a percentage of average loans. Net charge-offs are calculated as the difference between charged-off loans and recovery payments received on previously charged-off loans. The following table summarizes asset quality metrics:

	Three Months Ended March 31,	
	2011	**2010**
	(dollars in thousands)	
Non-accrual loans	**$114,246**	$148,760
Non-performing assets	**297,739**	304,612
Non-accrual loans to gross loans	**2.67%**	3.66%
Net charge-offs to average loans (annualized)	**1.39%**	2.43%

Asset and Deposit Growth

The ability to originate new loans and attract new deposits is fundamental to the Company s asset growth. The Company s assets and liabilities are comprised primarily of loans and deposits. Total assets increased during the first quarter 2011 to $6.40 billion from $6.19 billion at December 31, 2010. Total gross loans excluding net deferred fees and unearned income increased by $37.6 million, or 1.0%, as of March 31, 2011 compared to December 31, 2010. Total deposits increased $159 million, or 3%, to $5.50 billion as of March 31, 2011 from $5.34 billion as of December 31, 2010.

RESULTS OF OPERATIONS

The following table sets forth a summary financial overview for the three and nine months ended March 31, 2011 and 2010.

	Three Months Ended March 31,		Increase
	2011	**2010**	**(Decrease)**
	(in thousands, except per share amounts)		
Consolidated Statement of Operations Data:			
Interest income	**$ 71,966**	$ 68,734	$ 3,232
Interest expense	**10,868**	14,016	(3,148)
Net interest income	**61,098**	54,718	6,380
Provision for credit losses	**10,041**	28,747	(18,706)
Net interest income after provision for credit losses	**51,057**	25,971	25,086
Other non-interest income	**6,830**	14,629	(7,799)
Non-interest expense	**48,146**	40,843	7,303
Net income (loss) from continuing operations before income taxes	**9,741**	(243)	9,984
Income tax expense (benefit)	**4,029**	(1,562)	5,591
Loss from continuing operations	**5,712**	1,319	4,393
Loss from discontinued operations, net of tax benefit	**(559)**	(935)	376
Net income	**$ 5,153**	$ 384	$ 4,769
Net income (loss) available to common stockholders	**$ 2,650**	$ (2,082)	$ 4,732

Income (loss) per share	basic	**$**	**0.03**	$	(0.03)	$	0.06
Income (loss) per share	diluted	**$**	**0.03**	$	(0.03)	$	0.06

The Company s primary source of income is interest income. Interest income for the three months ended March 31, 2011 was $72.0 million, an increase of 4.7% when comparing interest income for the first quarter of 2010. This increase was primarily from interest income from investment securities and loans, which increased by $1.8 million and $1.5 million, respectively, for the first quarter 2011 compared to 2010. Despite the increased interest income, average yield on interest earning assets declined 13 basis points for the three months ended March 31, 2011 compared to 2010, mostly due to decreased yields on investment securities.

Interest expense for the three months ended March 31, 2011 compared to 2010 decreased by 22.5% to $10.9 million from $14.0 million. This decline was primarily due to decreased average interest paid on deposits which declined 51 basis

47

points to 0.81% for the three months ended March 31, 2011 compared to the same period in 2010. Interest paid on borrowings and debt increased by $1.0 for the three months ended March 31, 2011 compared to 2010 primarily due to the higher cost of the senior debt obligations borrowed in the third quarter of 2010.

Net interest income was $61.1 million for the three months ended March 31, 2011, compared to $54.7 million for the same period in 2010, an increase of $6.4 million, or 11.7%. The increase in net interest income reflects a $404.8 million increase in average earning assets, offset by a $162.9 million increase in average interest bearing liabilities. The increased margin of 18 basis points was due to a decrease in our average cost of funds primarily as a result of downward repricing of deposits.

Net Interest Margin

The net interest margin is reported on a fully tax equivalent (FTE) basis. A tax equivalent adjustment is added to reflect interest earned on certain municipal securities and loans that are exempt from Federal income tax. The following table sets forth the average balances and interest income on a fully tax equivalent basis and tax expense for the periods indicated:

	Three Months Ended March 31,					
	2011			2010		
	(dollars in thousands)					
	Average Balance	Interest	Average Yield/Cost (6)	Average Balance	Interest	Average Yield/Cost (6)
	(dollars in thousands)					
Interest-Earning Assets						
Securities:						
Taxable	**$ 1,194,668**	**$ 7,205**	**2.45%**	$ 770,207	$ 5,807	3.06%
Tax-exempt (1)	**82,572**	**725**	**5.92%**	53,250	287	4.04%
Total securities	**1,277,240**	**7,930**	**2.67%**	823,457	6,094	3.12%
Federal funds sold and other	**215**	**1**	**1.89%**	32,644	80	0.99%
Loans (1) (2) (3)	**4,203,183**	**63,882**	**6.16%**	4,053,520	62,350	6.24%
Short term investments	**228,146**	**131**	**0.23%**	389,823	183	0.19%
Restricted stock	**36,833**	**22**	**0.24%**	41,378	27	0.26%
Total earnings assets	**5,745,617**	**71,966**	**5.11%**	5,340,822	68,734	5.24%
Nonearning Assets						
Cash and due from banks	**121,556**			98,189		
Allowance for credit losses	**(110,527)**			(117,680)		
Bank-owned life insurance	**130,210**			92,761		
Other assets	**408,818**			400,542		
Total assets	**$ 6,295,674**			$ 5,814,634		
Interest-Bearing Liabilities						
Sources of Funds						
Interest-bearing deposits:						
Interest checking	**$ 501,463**	**$ 533**	**0.43%**	$ 449,972	$ 783	0.71%
Savings and money market	**2,007,420**	**3,566**	**0.72%**	1,784,206	4,676	1.06%
Time deposits	**1,438,869**	**3,799**	**1.07%**	1,482,604	6,620	1.81%
Total interest-bearing deposits	**3,947,752**	**7,898**	**0.81%**	3,716,782	12,079	1.32%
Short-term borrowings	**147,748**	**296**	**0.81%**	226,254	733	1.31%
Long-term debt	**73,013**	**1,972**	**10.95%**	3,218		0.00%
Junior subordinated and subordinated debt	**43,034**	**702**	**6.62%**	102,437	1,204	4.77%
Total interest-bearing liabilities	**4,211,547**	**10,868**	**1.05%**	4,048,691	14,016	1.40%
Noninterest-Bearing Liabilities						
Noninterest-bearing demand deposits	**1,441,413**			1,150,210		
Other liabilities	**29,448**			28,826		
Stockholders equity	**613,266**			586,907		
Total Liabilities and Stockholders Equity	**$ 6,295,674**			$ 5,814,634		

Net interest income and margin (4)	**$ 61,098**	**4.35%**	$ 54,718	4.17%
Net interest spread (5)		**4.06%**		3.84%

(1) Yields on loans and securities have been adjusted to a tax equivalent basis. Interest income has not been adjusted to a tax equivalent basis. The tax-equivalent adjustments for the three months ended March 31, 2011 and 2010 were $481 and $244, respectively.

(2) Net loan fees of $1.1 million are included in the yield computation for the three months ended March 31, 2011 and 2010, respectively.

(3) Includes nonaccrual loans.

(4) Net interest margin is computed by dividing net interest income by total average earning assets.

(5) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(6) Annualized.

The table below sets forth the relative impact on net interest income of changes in the volume of earning assets and interest-bearing liabilities and changes in rates earned and paid by the Company on such assets and liabilities. For purposes of this table, nonaccrual loans have been included in the average loan balances.

	Three Months Ended March 31, 2011 versus 2010 Increase (Decrease) Due to Changes in (1)(2)		
	Volume	**Rate**	**Total**
		(in thousands)	
Interest on investment securities:			
Taxable	$ 2,564	$ (1,166)	$ 1,398
Tax-exempt	428	10	438
Federal funds sold and other	(151)	72	(79)
Loans	2,273	(741)	1,532
Short term investments	(92)	40	(52)
Restricted stock	(3)	(2)	(5)
Total interest income	5,019	(1,787)	3,232
Interest expense:			
Interest checking	55	(305)	(250)
Savings and money market	396	(1,506)	(1,110)
Time deposits	(115)	(2,706)	(2,821)
Short-term borrowings	(157)	(280)	(437)
Long-term debt	1,884	88	1,972
Junior subordinated debt	(3,932)	3,430	(502)
Total interest expense	(1,869)	(1,279)	(3,148)
Net increase (decrease)	$ 6,888	$ (508)	$ 6,380

(1) Changes due to both volume and rate have been allocated to volume changes.

(2) Changes due to mark-to-market gains/losses under ASC 825 have been allocated to volume changes.

Provision for Credit Losses

The provision for credit losses in each period is reflected as a charge against earnings in that period. The provision is equal to the amount required to maintain the allowance for credit losses at a level that is adequate to absorb probable credit losses inherent in the loan portfolio. The provision for credit losses was $10.0 million and $28.7 million for the three months ended March 31, 2011 and 2010, respectively. The provision decreased primarily due to improved asset credit quality and stabilizing collateral values. Factors that impact the provision for credit losses are net charge-offs or recoveries, changes in the size and mix of the loan portfolio, the recognition of changes in current risk factors and specific reserves on impaired loans.

Non-interest Income

The Company earned non-interest income primarily through fees related to services, services provided to loan and deposit customers, bank owned life insurance, investment securities gains and impairment charges, investment advisory services, mark to market gains and other.

The following table presents a summary of non-interest income for the periods presented:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Increase (Decrease)
	(in thousands)		
Service charges	**$ 2,284**	$ 2,197	$ 87
Net gain on sale of investment securities	**1,379**	8,218	(6,839)
Income from bank owned life insurance	**1,184**	719	465
Securities impairment charges		(103)	103
Portion of impairment charges recognized in other comprehensive loss (before taxes)			
Net securities impairment charges recognized in earnings		(103)	103
Unrealized gain (loss) on assets and liabilities measured at fair value, net	**(509)**	301	(810)
Trust and advisory fees	**636**	1,213	(577)
Operating lease income	**671**	964	(293)
Other fee revenue	**760**	762	(2)
Other	**425**	358	67
Total non-interest income	**$ 6,830**	$ 14,629	$ (7,799)

Total non-interest income declined for the three month period ended March 31, 2011 compared to 2010, mostly the result of decreased gains from investment securities sales. In the first quarter of 2011, the Company sold $71.7 million of investment securities for a net gain on security sales of $1.4 million compared to $178.6 million of investment securities sales in the first quarter of 2010 for net gains on sales of $8.2 million, a decline of 83.2%. Mark to market adjustments declined by $0.8 million, primarily the result of a cumulative loss on one hedging relationship and increased unrealized losses in the investment securities trading portfolio due to interest rate fluctuations. Trust and advisory fees decreased for the three months ended March 31, 2011 compared to 2010 due to the disposition of the Company s trust unit, Premier Trust, in the third quarter of 2010 which contributed $0.6 million in trust fees for the first quarter of 2010. Operating lease income declined by $0.3 million for the first quarter of 2011 compared to 2010 due to the decline in the balance of operating leased equipment. The Company no longer focuses on this product. Income from bank owned life insurance increased by $0.4 million due to increased investments in bank owned life insurance for the comparable three month periods.

Non-interest Expense

The following table presents a summary of non-interest expenses for the periods indicated:

Table of Contents

	Three Months Ended March 31,		**Increase**		
	2011	**2010**	**(Decrease)**		
	(in thousands)				
Non-interest expense:					
Salaries and employee benefits	**$ 22,840**	$ 21,440	$ 1,400		
Occupancy	**4,854**	4,787	67		
Net loss (gain) on sales/valuations of repossessed assets and bank premises, net	**6,129**	(1,014)	7,143		
Insurance	**3,863**	3,492	371		
Loan and repossessed asset expense	**2,122**	2,364 19	19	57	212
Other comprehensive income (loss), net	$3,784	$(10,763)	$ (7,197)	$(23,465)	

16

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

16. Earnings Per Share

The components of the calculation of earnings per share ("EPS") are as follows:

	For the Three Months Ended		For the Nine Months Ended	
	March 27, 2016	March 29, 2015	March 27, 2016	March 29, 2015
Net income attributable to Unifi, Inc.	$9,689	$10,016	$24,178	$26,511
Basic weighted average shares	17,838	18,186	17,861	18,218
Net potential common share equivalents – stock options and RSUs	579	643	621	619
Diluted weighted average shares	18,417	18,829	18,482	18,837
Excluded from diluted weighted average shares:				
Anti-dilutive common share equivalents	224	150	143	167

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

17. Investments in Unconsolidated Affiliates and Variable Interest Entities

The Company currently maintains investments in three entities classified as unconsolidated affiliates: PAL; U.N.F. Industries Ltd. ("UNF"); and UNF America LLC ("UNFA"). As of March 27, 2016, the Company's investment in PAL was $113,732 and the Company's combined investments in UNF and UNFA were $4,220, reflected within investments in unconsolidated affiliates in the consolidated balance sheets.

Parkdale America, LLC

PAL is a limited liability company treated as a partnership for income tax reporting purposes. The Company has a 34% ownership interest in PAL, which is accounted for using the equity method of accounting. PAL is a producer of cotton and synthetic yarns for sale to the textile industry and apparel market, both foreign and domestic. PAL is subject to price risk related to anticipated fixed-price yarn sales. To protect the gross margin of these sales, PAL may enter into cotton futures to manage changes in raw material prices. The derivative instruments used are listed and traded on an exchange and are thus valued using quoted prices classified within Level 1 of the fair value hierarchy. As of March 2016, PAL had no futures contracts designated as cash flow hedges.

As PAL's fiscal year end is the Saturday nearest to December 31 and its results are considered significant (in accordance with Regulation S-X Rule 3-09), the Company files an amendment to each Annual Report on Form 10-K on or before 90 days subsequent to PAL's fiscal year end to provide PAL's audited financial statements for PAL's most recent fiscal year. The Company filed an amendment to its 2015 Annual Report on Form 10-K for the fiscal year ended June 28, 2015 on March 31, 2016 to provide PAL's audited financial statements for PAL's fiscal year ended January 2, 2016. The Company expects to file an amendment to the upcoming 2016 Annual Report on Form 10-K on or before March 31, 2017 to provide PAL's audited financial statements for PAL's fiscal year ended December 31, 2016.

On February 27, 2015, PAL purchased two manufacturing facilities, plus inventory, for approximately $13,000 cash, and entered into a yarn supply agreement with the seller. PAL has accounted for the transaction as a business combination under the acquisition method, recognizing the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. The Company and PAL concluded that the acquisition did not represent a material business combination. PAL recognized a bargain purchase gain of approximately $9,381.

The reconciliation between the Company's share of the underlying equity of PAL and its investment is as follows:

Underlying equity as of March 27, 2016	$132,021
Initial excess capital contributions	53,363
Impairment charge recorded by the Company in 2007	(74,106)
Anti-trust lawsuit against PAL in which the Company did not participate	2,652
Cotton rebate program adjustments	(198)
Investment as of March 27, 2016	$113,732

U.N.F. Industries Ltd.

Raw material and production services for UNF are provided by the Company's 50% joint venture partner under separate supply and services agreements. UNF's fiscal year end is December 31 and it is a registered Israeli private company located in Migdal Ha-Emek, Israel.

UNF America LLC

Raw material and production services for UNFA are provided by the Company’s 50% joint venture partner under separate supply and services agreements. UNFA’s fiscal year end is December 31 and it is a limited liability company treated as a partnership for income tax reporting purposes located in Ridgeway, Virginia.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

In conjunction with the formation of UNFA, the Company entered into a supply agreement with UNF and UNFA whereby the Company agreed to purchase all of its first quality nylon POY requirements for texturing (subject to certain exceptions) from either UNF or UNFA. The agreement has no stated minimum purchase quantities and pricing is negotiated every six months, based on market rates. As of March 27, 2016, the Company's open purchase orders related to this agreement were $3,364.

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

	For the Nine Months Ended	
	March 27, 2016	**March 29, 2015**
UNF	$2,465	$2,578
UNFA	19,039	21,798
Total	$21,504	$24,376

As of March 27, 2016 and June 28, 2015, the Company had combined accounts payable due to UNF and UNFA of $2,584 and $4,038, respectively.

The Company has determined that UNF and UNFA are variable interest entities ("VIEs") and has also determined that the Company is the primary beneficiary of these entities, based on the terms of the supply agreement. As a result, these entities should be consolidated in the Company's financial results. As the Company purchases substantially all of the output from the two entities, the two entities' balance sheets constitute 3% or less of the Company's current assets, total assets and total liabilities (when excluding reciprocal balances), and because such balances are not expected to comprise a larger portion in the future, the Company has not included the accounts of UNF and UNFA in its consolidated financial statements. The financial results of UNF and UNFA are included in the Company's financial statements with a one-month lag, using the equity method of accounting and with intercompany profits eliminated in accordance with the Company's accounting policy. Other than the supply agreement discussed above, the Company does not provide any other commitments or guarantees related to either UNF or UNFA.

Condensed balance sheet and income statement information for the Company's unconsolidated affiliates (including reciprocal balances) is presented in the following tables. As PAL is defined as significant, its information is separately disclosed.

	As of March 27, 2016		
	PAL	**Other**	**Total**
Current assets	$242,917	$10,735	$253,652
Noncurrent assets	203,640	1,073	204,713
Current liabilities	54,908	3,368	58,276
Noncurrent liabilities	3,352	—	3,352
Shareholders’ equity and capital accounts	388,297	8,440	396,737
The Company’s portion of undistributed earnings	44,355	1,921	46,276
Deferred revenues related to the cotton rebate program	—	—	—

	As of June 28, 2015		
	PAL	**Other**	**Total**
Current assets	$250,699	$9,273	$259,972
Noncurrent assets	216,708	3,676	220,384
Current liabilities	61,243	4,985	66,228
Noncurrent liabilities	28,935	—	28,935
Shareholders’ equity and capital accounts	377,229	7,964	385,193
Deferred revenues related to the cotton rebate program	—	—	—

	For the Three Months Ended March 27, 2016		
	PAL	**Other**	**Total**
Net sales	$219,611	$6,493	$226,104
Gross profit	15,613	1,672	17,285
Income from operations	10,809	1,196	12,005
Net income	10,631	1,198	11,829
Depreciation and amortization	10,194	38	10,232
Cash received by PAL under cotton rebate program	2,505	—	2,505
Earnings recognized by PAL for cotton rebate program	4,111	—	4,111
Distributions received	—	—	—

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

	For the Three Months Ended March 29, 2015		
	PAL	Other	Total
Net sales	$194,328	$7,832	$202,160
Gross profit	18,394	1,246	19,640
Income from operations	13,562	825	14,387
Net income	14,459	1,017	15,476
Depreciation and amortization	8,043	29	8,072
Cash received by PAL under cotton rebate program	3,692	—	3,692
Earnings recognized by PAL for cotton rebate program	4,022	—	4,022
Distributions received	598	—	598

	For the Nine Months Ended March 27, 2016		
	PAL	Other	Total
Net sales	$627,102	$23,106	$650,208
Gross profit	25,917	5,854	31,771
Income from operations	12,933	4,434	17,367
Net income	15,190	4,476	19,666
Depreciation and amortization	31,057	112	31,169
Cash received by PAL under cotton rebate program	11,365	—	11,365
Earnings recognized by PAL for cotton rebate program	12,039	—	12,039
Distributions received	947	2,000	2,947

	For the Nine Months Ended March 29, 2015		
	PAL	Other	Total
Net sales	$592,807	$24,147	$616,954
Gross profit	41,426	2,908	44,334
Income from operations	27,285	1,773	29,058
Net income	33,462	2,041	35,503
Depreciation and amortization	23,412	79	23,491
Cash received by PAL under cotton rebate program	12,146	—	12,146

Earnings recognized by PAL for cotton rebate program	12,777	—	12,777
Distributions received	598	—	598

18. Commitments and Contingencies

Collective Bargaining Agreements

While employees of the Company’s Brazilian operations are unionized, none of the labor force employed by the Company’s domestic or other foreign subsidiaries is currently covered by a collective bargaining agreement.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

Environmental

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

Operating Leases

The Company routinely leases sales and administrative office space, warehousing and distribution centers, manufacturing space, transportation equipment, manufacturing equipment, and other information technology and office equipment from third parties. In addition, Renewables leases farm land for use in growing giant miscanthus. In connection with the expansion of growing crop fields, Renewables has entered into multiple operating leases for land during the nine months ended March 27, 2016, many of which have lease terms of ten years with a renewal option and cancellation terms of one year.

Other Commitments

The Company has assumed various financial obligations and commitments in the normal course of its operations and financing activities. Financial obligations are considered to represent known future cash payments that the Company is required to make under existing contractual arrangements.

During the nine months ended March 27, 2016, the Company entered into certain agreements to purchase assets in connection with the construction of a plastic bottle processing plant for the Polyester Segment. Unpaid amounts relating to these agreements total approximately $7,300.

In October 2015, the Company entered into a commitment to construct assets for use in conversion of third party product. While the subject assets are being financed by a construction financing arrangement (described in note 9), in the course of facilitating construction, the Company will incur commitments to equipment vendors and contractors. As of March 27, 2016, such commitments total approximately $6,300.

During the quarter ended March 27, 2016, the Company entered into a three year agreement with a vendor for waste removal services related to the future operation of its bottle processing facility. The minimum commitment under this contract is approximately $2,600.

The Company will incur commitments to contractors and equipment vendors related to the expansion of its REPREVE® Recycling Center. As of March 27, 2016, such commitments total approximately $4,100.

19. Related Party Transactions

For details regarding the nature of certain related party relationships, see note 25 included in the 2015 Form 10-K.

Related party receivables consist of the following:

	March 27, 2016	June 28, 2015
Cupron, Inc.	$ 70	$ 72
Salem Global Logistics, Inc.	17	3
Total related party receivables (included within receivables, net)	$ 87	$ 75

20

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

Related party payables consist of the following:

	March 27, 2016	**June 28, 2015**
Cupron, Inc.	$ 680	$ 506
Salem Leasing Corporation	269	277
Total related party payables (included within accounts payable)	$ 949	$ 783

Related party transactions consist of the following:

Affiliated Entity	Transaction Type	**For the Three Months Ended March 27, 2016**	**March 29, 2015**
Salem Leasing Corporation	Transportation equipment costs	$893	$ 861
Salem Global Logistics, Inc.	Freight service income	68	16
Cupron, Inc.	Sales	89	128
Cupron, Inc.	Raw material purchases	9	46

Affiliated Entity	Transaction Type	**For the Nine Months Ended March 27, 2016**	**March 29, 2015**
Salem Leasing Corporation	Transportation equipment costs	$2,769	$2,758
Salem Global Logistics, Inc.	Freight service income	211	148
Cupron, Inc.	Sales	341	677
Cupron, Inc.	Raw material purchases	17	256
Invemed Associates LLC	Brokerage services	4	2

From time to time, the Company exchanges equipment or extends the term of operating leases for certain transportation equipment under a master lease agreement with Salem Leasing Corporation. During the first half of fiscal year 2016, the Company exchanged multiple power units pursuant to such master lease agreement, with terms extending over the next four to six years. The increase to the respective June 28, 2015 obligation approximates $6,300 as of March 27, 2016.

Through April 24, 2015, Mr. Mitchel Weinberger was a member of the Company's Board. Related party transaction amounts for entities affiliated with Mr. Weinberger are omitted from current disclosures as such entities no longer constitute related parties of the Company.

20. Business Segment Information

The Company has three reportable segments. Operations and revenues for each segment are described below:

The Polyester Segment manufactures Chip, POY, textured, dyed, twisted, beamed and draw wound yarns, both virgin and recycled, with sales primarily to other yarn manufacturers and knitters and weavers that produce yarn and/or fabric for the apparel, hosiery, automotive upholstery, home furnishings, industrial and other end-use markets. The Polyester Segment consists of sales and manufacturing operations in the U.S. and El Salvador.

The Nylon Segment manufactures textured yarns (both nylon and polyester) and spandex covered yarns, with sales to knitters and weavers that produce fabric primarily for the apparel and hosiery markets. The Nylon Segment consists of sales and manufacturing operations in the U.S. and Colombia.

The International Segment's products primarily include textured polyester and various types of resale yarns and staple fiber. The International Segment sells its yarns to knitters and weavers that produce fabric for the apparel, automotive upholstery, home furnishings, industrial and other end-use markets primarily in the South American and Asian regions. This segment includes a manufacturing location and sales offices in Brazil and a sales office in China.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

In addition to its reportable segments, the Company's selected financial information includes an All Other category. All Other consists primarily of Renewables (an operating segment that does not meet quantitative thresholds for reporting), for-hire transportation services and consulting services. Revenue for Renewables is primarily derived from (i) facilitating the use of miscanthus grass as bio-fuel through service agreements and (ii) delivering harvested miscanthus grass to poultry producers for animal bedding. For-hire transportation services revenues are derived from performing common carrier services utilizing the Company's fleet of transportation equipment. Revenues for consulting services are derived from providing process improvement and change management consulting services to entities across various industries.

The operations within All Other (i) are not subject to review by the chief operating decision maker at a level consistent with the Company's other operations, (ii) are not regularly evaluated using the same metrics applied to the Company's other operations and (iii) do not qualify for aggregation with an existing reportable segment. Therefore, such operations are excluded from reportable segments.

The Company evaluates the operating performance of its segments based upon Segment Profit, which represents segment gross profit plus segment depreciation expense. This measurement of segment profit or loss best aligns segment reporting with the current assessments and evaluations performed by, and information provided to, the chief operating decision maker.

In fiscal year 2015, the Company evaluated the operating performance of its segments based upon a different metric, referred to as Segment Adjusted Profit, which was defined as segment gross profit, plus segment depreciation and amortization, less segment SG&A expenses, plus segment other adjustments. SG&A expenses and other adjustments are no longer significant to the segment evaluations performed by the chief operating decision maker. The Company is providing current and comparative selected financial information below under the current method of evaluating segment profitability.

The accounting policies for the segments are consistent with the Company's accounting policies. Intersegment sales are omitted from the below financial information, as they are (i) insignificant to the Company's segments and consolidated operations and (ii) excluded from segment evaluations performed by the chief operating decision maker.

Selected financial information is presented below. As described in note 2, certain amounts previously reported, which comprise operating income for the three and nine months ended March 29, 2015, have been revised to reflect reclassification into the All Other category.

	For the Three Months Ended March 27, 2016				
	Polyester	**Nylon**	**International**	**All Other**	**Total**
Net sales	$94,659	$33,871	$ 31,092	$1,656	$161,278
Cost of sales	81,865	29,820	24,443	1,786	137,914
Gross profit (loss)	12,794	4,051	6,649	(130)	23,364
Segment depreciation expense	2,690	509	236	242	3,677
Segment Profit	$15,484	$4,560	$ 6,885	$112	$27,041

	For the Three Months Ended March 29, 2015				
	Polyester	**Nylon**	**International**	**All Other**	**Total**
Net sales	$98,759	$40,754	$ 31,017	$1,657	$172,187
Cost of sales	85,917	36,567	26,003	1,693	150,180
Gross profit (loss)	12,842	4,187	5,014	(36)	22,007
Segment depreciation expense	2,578	482	353	105	3,518
Segment Profit	$15,420	$4,669	$ 5,367	$69	$25,525

The reconciliations of segment gross profit (loss) to consolidated income before income taxes are as follows:

	For the Three Months Ended	
	March 27, 2016	**March 29, 2015**
Polyester	$12,794	$12,842
Nylon	4,051	4,187
International	6,649	5,014
All Other category	(130)	(36)
Segment gross profit	23,364	22,007
SG&A expenses	12,142	12,647
Provision for bad debts	411	—
Other operating expense, net	819	329
Operating income	9,992	9,031
Interest income	(190)	(247)
Interest expense	908	1,209
Loss on extinguishment of debt	—	1,040
Equity in earnings of unconsolidated affiliates	(4,167)	(5,459)
Income before income taxes	$13,441	$12,488

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

	For the Nine Months Ended March 27, 2016				
	Polyester	**Nylon**	**International**	**All Other**	**Total**
Net sales	$275,041	$114,914	$ 85,275	$4,549	$479,779
Cost of sales	241,145	98,967	68,654	4,852	413,618
Gross profit (loss)	33,896	15,947	16,621	(303)	66,161
Segment depreciation expense	8,237	1,542	649	556	10,984
Segment Profit	$42,133	$17,489	$ 17,270	$253	$77,145

	For the Nine Months Ended March 29, 2015				
	Polyester	**Nylon**	**International**	**All Other**	**Total**
Net sales	$282,168	$124,676	$ 101,017	$4,309	$512,170
Cost of sales	246,718	109,712	85,613	4,741	446,784
Gross profit (loss)	35,450	14,964	15,404	(432)	65,386
Segment depreciation expense	7,434	1,414	1,738	324	10,910
Segment Profit (Loss)	$42,884	$16,378	$ 17,142	$(108)	$76,296

The reconciliations of segment gross profit (loss) to consolidated income before income taxes are as follows:

	For the Nine Months Ended	
	March 27, 2016	**March 29, 2015**
Polyester	$33,896	$35,450
Nylon	15,947	14,964
International	16,621	15,404
All Other category	(303)	(432)
Segment gross profit	66,161	65,386
SG&A expenses	35,391	37,266
Provision for bad debts	1,583	647
Other operating expense, net	879	891
Operating income	28,308	26,582
Interest income	(519)	(873)
Interest expense	2,708	3,237
Loss on extinguishment of debt	—	1,040
Equity in earnings of unconsolidated affiliates	(7,330)	(12,461)

Income before income taxes	$33,449	$35,639

The reconciliations of segment capital expenditures to consolidated capital expenditures are as follows:

	For the Nine Months Ended	
	March 27, 2016	**March 29, 2015**
Polyester	$31,306	$16,707
Nylon	1,622	1,415
International	1,395	807
Segment capital expenditures	34,323	18,929
Other capital expenditures	2,446	464
Capital expenditures	$36,769	$19,393

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

The reconciliations of segment total assets to consolidated total assets are as follows:

	March 27, 2016	**June 28, 2015**
Polyester	$229,561	$203,574
Nylon	71,690	71,332
International	61,424	63,031
Segment total assets	362,675	337,937
Other current assets	5,709	4,687
Other PP&E	16,951	13,544
Other non-current assets	5,669	6,303
Investments in unconsolidated affiliates	117,952	113,901
Total assets	$508,956	$476,372

21. Supplemental Cash Flow Information

Cash payments for interest and taxes consist of the following:

	For the Nine Months Ended	
	March 27, 2016	**March 29, 2015**
Interest, net of capitalized interest of $454 and $143, respectively	$2,370	$2,524
Income taxes, net of refunds	3,820	13,995

Cash payments for taxes shown above consist primarily of income and withholding tax payments made by the Company in both U.S. and foreign jurisdictions.

Non-Cash Investing and Financing Activities

As of March 27, 2016 and June 28, 2015, $3,467 and $1,726, respectively, were included in accounts payable for unpaid capital expenditures.

As of March 29, 2015 and June 29, 2014, $1,782 and $5,023, respectively, were included in accounts payable for unpaid capital expenditures.

During August 2015, the Company utilized $1,390 of funds held by a qualified intermediary to purchase certain land and building assets.

During the nine months ended March 27, 2016, the Company entered into capital leases with an aggregate present value of $4,154.

During the nine months ended March 29, 2015, the Company entered into capital leases with an aggregate present value of $6,065.

During the nine months ended March 27, 2016, Renewables acquired certain land valued at $191 utilizing a promissory note for $135 and cash.

During the nine months ended March 27, 2016, the Company recorded $3,099 to construction in progress and long-term debt, in connection with the financing arrangement described under the subheading "—*Construction Financing*" in note 9.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors that have affected the Company's operations, and material changes in financial condition, during the periods included in the accompanying Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. A reference to a "note" in this section refers to the accompanying Notes to Condensed Consolidated Financial Statements.

Our discussions below in this Item 2 are based upon the more detailed discussions about our business, operations and financial condition included in the 2015 Form 10-K. Our discussions here focus on our results during, or as of, the third quarter of fiscal year 2016, and the comparable period of fiscal year 2015, and, to the extent applicable, any material changes from the information discussed in the 2015 Form 10-K or other important intervening developments or information. These discussions should be read in conjunction with the 2015 Form 10-K for more detailed and background information.

Forward-Looking Statements

This report contains statements that may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, which we discuss in detail under Item 1 of the 2015 Form 10-K. Important factors currently known to management that could cause actual results to differ materially from those forward-looking statements include risks and uncertainties associated with economic conditions in the textile industry as well as the risks and uncertainties discussed under the heading "Risk Factors" included in Item 1A of the 2015 Form 10-K, which discussion is hereby incorporated by reference. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

Overview and Significant General Matters

The Company remains committed to making improvements to its core business, growing the market for its value-added products, and generating positive cash flow from operations to fund capital projects, strategic growth opportunities and potential share repurchases. The Company's core strategies include: continuously improving all operational and business processes, both to enhance product quality and customer responsiveness and to derive cost efficiencies; enriching our product mix by aggressively growing our higher-margin premier value-added products and increasing our market share of compliant yarns (as defined in the 2015 Form 10-K); deriving value from sustainability-based initiatives, including polyester and nylon recycling; increasing sales in global growth markets, including Central America, South America, and Asia; and maintaining our beneficial joint venture relationships. The Company remains committed to these core business strategies, which it believes will increase our profitability and generate improved cash flows from operations to fund select strategic opportunities that will enhance shareholder value.

The Company has three reportable segments for its operations – the Polyester Segment, the Nylon Segment and the International Segment – as well as certain ancillary operations that include Repreve Renewables, LLC ("Renewables"), for-hire transportation services and consulting services, which comprise an All Other category. The ancillary operations classified within All Other are insignificant for all periods presented; therefore, the Company's discussion and analysis of those activities is generally limited to their impact on consolidated results, where appropriate.

Significant highlights for the current March quarter include the following items, each of which is outlined in more detail below:

Gross margin, as a percentage of sales, strengthened at 14.5%, compared to 12.8% for the prior year comparable quarter;

Operating income climbed to $9,992 compared to $9,031 in the prior year quarter;

Net cash provided by operating activities increased to $38,243 for the nine months ended March 27, 2016, up from $19,697 for the prior year comparable period; and

The Company remains on track with capital projects, including the bottle processing operation.

Key Performance Indicators and Non-GAAP Financial Measures

The Company continuously reviews performance indicators to measure its success. The following are the key indicators management uses to assess performance of the Company's business, including certain GAAP and non-GAAP financial measures:

- sales volume for the Company and for each of its reportable segments;
- unit conversion margin, which represents unit net sales price less unit raw material costs, for the Company and for each of its reportable segments;
- gross profit and gross margin for the Company and for each of its reportable segments;
- working capital, which represents current assets less current liabilities;
- net income and earnings per share for the Company;
- Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), which represents net income or loss attributable to Unifi, Inc. before net interest expense, income tax expense and depreciation and amortization expense;
- Adjusted EBITDA Including Equity Affiliates, which represents EBITDA adjusted to exclude non-cash compensation expense, losses on extinguishment of debt and certain other adjustments. Such other adjustments include restructuring charges and start-up costs, gains or losses on sales or disposals of assets, currency and derivative gains or losses, and other operating or non-operating income or expense items necessary to understand and compare the underlying results of the Company;
- Adjusted EBITDA, which represents Adjusted EBITDA Including Equity Affiliates adjusted to exclude equity in loss or earnings of Parkdale America, LLC ("PAL");
- Segment Profit, which equals segment gross profit, plus segment depreciation expense; and
- Adjusted Working Capital (receivables plus inventory, less accounts payable and accrued expenses), which is an indicator of the Company's production efficiency and ability to manage inventory and receivables.

EBITDA, Adjusted EBITDA Including Equity Affiliates, Adjusted EBITDA, Segment Profit and Adjusted Working Capital are not determined in accordance with generally accepted accounting principles ("GAAP") and should not be considered a substitute for performance measures determined in accordance with GAAP. EBITDA, Adjusted EBITDA Including Equity Affiliates, Adjusted EBITDA, Segment Profit and Adjusted Working Capital are non-GAAP financial measurements that management uses to facilitate its analysis and understanding of the Company's business operations. Management believes they are useful to investors because they provide a supplemental way to understand the underlying operating performance and debt service capacity of the Company. The calculations of EBITDA, Adjusted EBITDA Including Equity Affiliates, Adjusted EBITDA, Segment Profit and Adjusted Working Capital are subjective measures based on management's belief as to which items should be included or excluded in order to provide the most reasonable view of the underlying operating performance of the business. The Company may, from time to time, change the items included within these non-GAAP financial measures.

Select Non-GAAP Reconciliation Information

The reconciliations of Net income attributable to Unifi, Inc. to EBITDA, Adjusted EBITDA Including Equity Affiliates and Adjusted EBITDA are presented below. Certain line items below are not reflective of consolidated amounts due to the impact of non-controlling interest.

	For the Three Months Ended		**For the Nine Months Ended**	
	March 27, 2016	**March 29, 2015**	**March 27, 2016**	**March 29, 2015**
Net income attributable to Unifi, Inc.	$9,689	$10,016	$24,178	$26,511
Interest expense, net	709	962	2,171	2,364
Provision for income taxes	4,166	2,729	10,194	10,083
Depreciation and amortization expense	4,192	4,154	12,584	12,803
EBITDA	18,756	17,861	49,127	51,761
Non-cash compensation expense	637	565	2,189	2,462
Loss on extinguishment of debt	—	1,040	—	1,040
Other, net	872	520	1,480	1,271
Adjusted EBITDA Including Equity Affiliates	20,265	19,986	52,796	56,534
Equity in earnings of Parkdale America, LLC	(3,630)	(4,933)	(5,214)	(11,427)
Adjusted EBITDA	$16,635	$15,053	$47,582	$45,107

26

Results of Operations

Third Quarter of Fiscal Year 2016 Compared to Third Quarter of Fiscal Year 2015

Consolidated Overview

The components of net income attributable to Unifi, Inc., each component as a percentage of net sales, and the percentage increase or decrease over the prior period amounts are presented in the table below.

	For the Three Months Ended				
	March 27, 2016		March 29, 2015		
		% of Net Sales		% of Net Sales	% Change
Net sales	$161,278	100.0	$172,187	100.0	(6.3)
Cost of sales	137,914	85.5	150,180	87.2	(8.2)
Gross profit	23,364	14.5	22,007	12.8	6.2
Selling, general and administrative expenses	12,142	7.5	12,647	7.3	(4.0)
Provision for bad debts	411	0.3	—	—	100.0
Other operating expense, net	819	0.5	329	0.2	100.0
Operating income	9,992	6.2	9,031	5.3	10.6
Interest expense, net	718	0.5	962	0.6	(25.4)
Loss on extinguishment of debt	—	—	1,040	0.6	(100.0)
Equity in earnings of unconsolidated affiliates	(4,167)	(2.6)	(5,459)	(3.2)	(23.7)
Income before income taxes	13,441	8.3	12,488	7.3	7.6
Provision for income taxes	4,166	2.6	2,729	1.6	52.7
Net income including non-controlling interest	9,275	5.7	9,759	5.7	(5.0)
Less: net (loss) attributable to non-controlling interest	(414)	(0.3)	(257)	(0.1)	61.1
Net income attributable to Unifi, Inc.	$9,689	6.0	$10,016	5.8	(3.3)

Consolidated Net Sales

Consolidated net sales for the March 2016 quarter decreased by $10,909, or 6.3%, as compared to the prior year March quarter.

Consolidated sales volumes decreased 0.5%, attributable to (i) the strategic exiting of specific lower-margin business, (ii) lower shipments due to the timing of the Easter holiday, which fell in the Company's third quarter this year versus the fourth quarter last year and (iii) a shift towards lighter weight, or lower denier, yarns. These decreases were partially offset by (a) strong demand for our PVA products, (b) volume growth for our subsidiary in China, attributable to the success of our PVA efforts in Asia, and (c) higher sales volumes for our Brazilian subsidiary due to market share gains.

Consolidated sales pricing decreased 5.9%, attributable to (i) unfavorable currency translation due to the devaluation of certain foreign currencies (at approximately $6,700) and (ii) lower pricing in the Polyester and Nylon Segments attributable to lower raw material costs, partially offset by (a) improved pricing in connection with growth of our PVA yarns. PVA products for the current quarter comprised approximately 35% of the Company's consolidated net sales as compared to approximately 30% at the end of fiscal year 2015.

Consolidated Gross Profit

Gross profit for the March 2016 quarter increased by $1,357, or 6.2%, as compared to the prior year March quarter, primarily due to the Company's mix enrichment strategy and growth in the International Segment. Gross profit increased for the International Segment due to improvements in China as a result of PVA sales growth and improvements in Brazil despite unfavorable currency translation and challenging market conditions. Gross profit for the Polyester Segment was relatively unchanged, but benefitted from mix enrichment achieved through increased demand for our PVA yarns. Gross profit for the Nylon Segment was favorably impacted by manufacturing cost efficiencies, but was unfavorably impacted by lower volumes.

Further details regarding the changes in net sales and gross profit, by reportable segment, follow.

Polyester Segment

The components of Segment Profit, each component as a percentage of net sales, and the percentage increase or decrease over the prior period amounts for the Polyester Segment are as follows:

	For the Three Months Ended				
	March 27, 2016		**March 29, 2015**		
		% of Net Sales		**% of Net Sales**	**% Change**
Net sales	$94,659	100.0	$98,759	100.0	(4.2)
Cost of sales	81,865	86.5	85,917	87.0	(4.7)
Gross profit	12,794	13.5	12,842	13.0	(0.4)
Depreciation expense	2,690	2.9	2,578	2.6	4.3
Segment Profit	$15,484	16.4	$15,420	15.6	0.4

The change in net sales for the Polyester Segment is as follows:

Net sales for the third quarter of fiscal year 2015	$98,759
Decrease in sales volumes	(3,052)
Decrease in average selling price	(1,048)
Net sales for the third quarter of fiscal year 2016	$94,659

The overall decrease in net sales is primarily attributable to (i) the timing of the Easter holiday compared to the prior year and (ii) decreased sales volumes due to the strategic exiting of specific lower-margin business, partially offset by (iii) an increase in PVA yarn sales. Lower average selling price is the result of lower raw material costs (approximately 10% for virgin polyester raw materials), partially offset by improved pricing from PVA yarn sales.

The change in Segment Profit for the Polyester Segment is as follows:

Segment Profit for the third quarter of fiscal year 2015	$15,420
Increase in underlying margins	541
Decrease in sales volumes	(477)
Segment Profit for the third quarter of fiscal year 2016	$15,484

Polyester Segment Profit was favorably impacted by mix enrichment achieved through increased demand for our PVA yarns, partially offset by an increase in certain variable costs and decreased volumes (as noted in the net sales analysis above).

Polyester Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 58.7% and 57.3% for the third quarter of fiscal year 2016, compared to 57.3% and 60.4% for the third quarter of fiscal year 2015, respectively.

Nylon Segment

The components of Segment Profit, each component as a percentage of net sales, and the percentage increase or decrease over the prior period amounts for the Nylon Segment are as follows:

	For the Three Months Ended				
	March 27, 2016		March 29, 2015		
		% of Net Sales		% of Net Sales	% Change
Net sales	$33,871	100.0	$40,754	100.0	(16.9)
Cost of sales	29,820	88.0	36,567	89.7	(18.5)
Gross profit	4,051	12.0	4,187	10.3	(3.2)
Depreciation expense	509	1.5	482	1.2	5.6
Segment Profit	$4,560	13.5	$4,669	11.5	(2.3)

The change in net sales for the Nylon Segment is as follows:

Net sales for the third quarter of fiscal year 2015	$40,754
Decrease in sales volumes	(5,119)
Decrease in average selling price and change in sales mix	(1,764)
Net sales for the third quarter of fiscal year 2016	$33,871

The overall decrease in net sales is attributable to (i) customer inventory adjustments, mostly associated with the warmer winter season, (ii) the timing of the Easter holiday compared to the prior year and (iii) a decrease in pricing due to a decline in raw material costs.

The change in Segment Profit for the Nylon Segment is as follows:

Segment Profit for the third quarter of fiscal year 2015	$4,669
Decrease in sales volumes	(587)
Increase in underlying margins	478
Segment Profit for the third quarter of fiscal year 2016	$4,560

Nylon Segment Profit was unfavorably impacted by (i) a decrease in sales volumes as noted in the net sales analysis above, partially offset by (ii) improved manufacturing cost efficiencies.

Nylon Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 21.0% and 16.9% for the third quarter of fiscal year 2016, compared to 23.7% and 18.3% for the third quarter of fiscal year 2015, respectively.

International Segment

The components of Segment Profit, each component as a percentage of net sales, and the percentage increase or decrease over the prior period amounts for the International Segment are as follows:

	For the Three Months Ended				
	March 27, 2016		March 29, 2015		
		% of Net Sales		% of Net Sales	% Change
Net sales	$31,092	100.0	$31,017	100.0	0.2
Cost of sales	24,443	78.6	26,003	83.8	(6.0)
Gross profit	6,649	21.4	5,014	16.2	32.6
Depreciation expense	236	0.7	353	1.1	(33.1)
Segment Profit	$6,885	22.1	$5,367	17.3	28.3

The change in net sales for the International Segment is as follows:

Net sales for the third quarter of fiscal year 2015	$31,017
Improvement in average selling price and change in sales mix	4,050
Increase in sales volumes	2,495
Unfavorable currency translation effects (Brazilian Real and Chinese Renminbi)	(6,470)
Net sales for the third quarter of fiscal year 2016	$31,092

29

Net sales for the International Segment were favorably impacted by (i) higher sales volumes for our Brazilian subsidiary due to market share gains achieved from a competitor that ceased operations in the third quarter and (ii) higher sales volumes for our subsidiary in China, benefiting from several new sales programs. These benefits were offset by unfavorable currency translation due to the devaluation of the Brazilian Real (using a weighted average exchange rate of 3.88 Real/U.S. Dollar versus 2.87) and the Chinese Renminbi.

The change in Segment Profit for the International Segment is as follows:

Segment Profit for the third quarter of fiscal year 2015	$5,367
Improvements in underlying margins	2,212
Increase in sales volumes	433
Unfavorable currency translation effects (Brazilian Real and Chinese Renminbi)	(1,127)
Segment Profit for the third quarter of fiscal year 2016	$6,885

The increase in Segment Profit was attributable to (i) improved margins in Brazil based on a greater mix of higher-margin manufactured products, as volumes increased in connection with the above net sales discussion, and (ii) improved margins in China due to the growth of PVA programs in Asia, partially offset by unfavorable currency translation effects due to the devaluation of both the Brazilian Real and the Chinese Renminbi against the U.S. Dollar.

International Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 19.3% and 25.4% for the third quarter of fiscal year 2016, compared to 18.0% and 21.0% for the third quarter of fiscal year 2015, respectively.

Consolidated Selling, General and Administrative Expenses

The change in selling, general and administrative (“SG&A”) expenses is as follows:

SG&A expenses for the third quarter of fiscal year 2015	$12,647
Decrease in variable compensation	(511)
Decrease in professional fees	(239)
Decrease in depreciation and amortization expenses	(72)
Increase in consumer marketing and branding expenses	342
Other, net	(25)

SG&A expenses for the third quarter of fiscal year 2016	$12,142

Total SG&A expenses were lower versus the prior year quarter, primarily attributable to (i) a decrease in variable compensation due to the Company's performance against established targets for the comparable periods, (ii) a decrease in professional fees due to a reduction in out-sourced auxiliary tax, legal and other services and (iii) a net decrease in depreciation and amortization expenses, due to lower amortization of customer lists. These decreases were partially offset by an increase in consumer marketing and branding expenses resulting from the timing and magnitude of expenses for advertising and sponsorship agreements, primarily for REPREVE®.

Consolidated Provision for Bad Debts

Provision for bad debts increased $411. The current quarter's provision reflects an increase for a specifically identified customer balance originating in the Company's regional polyester operations.

Consolidated Other Operating Expense, Net

Other operating expense, net increased by $490. The increase was driven by severance charges recorded in the current quarter relating to the transition of a key employee.

Consolidated Interest Expense, Net

Interest expense, net decreased $244, and reflected the following components:

	For the Three Months Ended	
	March 27, 2016	March 29, 2015
Interest and fees on the ABL Facility	$768	$866
Other interest	217	43
Subtotal of interest on debt obligations	985	909
Reclassification adjustment for interest rate swap	19	19
Amortization of debt financing fees	104	144
Mark-to-market adjustment for interest rate swap	28	227
Interest capitalized	(228)	(90)
Subtotal of other components of interest expense	(77)	300
Total interest expense	908	1,209
Interest income	(190)	(247)
Interest expense, net	$718	$962

Interest and fees on the ABL Facility decreased in connection with a decline in the weighted average interest rate from 3.0% to 2.5%, partially offset by an increase in the average debt balance from $105,189 to $107,213.

The increase in other interest is primarily attributable to an increase in the average capital lease obligation from $5,199 to $17,391.

The change in other components of interest expense from the prior period is primarily attributable to the favorable change in the mark-to-market adjustment for the Company’s $50,000 interest rate swap, which is subject to external factors such as changes in third-party estimates or forecasts for interest rates. In addition, the Company capitalized more interest in the current period, driven by increased capital expenditures, the majority of which relate to the construction of our plastic bottle processing facility.

Interest income in each period includes earnings recognized on cash equivalents held globally.

Loss on Extinguishment of Debt

During the March 2015 period, the Company recorded a loss on extinguishment of debt of $1,040 for the write-off of certain debt financing fees related to a previous credit agreement. There was no similar activity during the March 2016 period.

Consolidated Earnings from Unconsolidated Affiliates

The components of earnings from unconsolidated affiliates are as follows:

	For the Three Months Ended	
	March 27, 2016	**March 29, 2015**
Earnings from PAL	$(3,630)	$(4,933)
Earnings from nylon joint ventures	(537)	(526)
Total equity in earnings of unconsolidated affiliates	$(4,167)	$(5,459)
As a percentage of consolidated income before income taxes	31.0 %	43.7 %

The Company’s 34% share of PAL’s earnings decreased, which the Company understands is primarily attributable to (i) lower operating margins, primarily as a result of competitive pricing pressure and (ii) higher start-up and depreciation expenses in connection with recent expansions.

Consolidated Income Taxes

The change in consolidated income taxes is as follows:

	For the Three Months Ended	
	March 27, 2016	**March 29, 2015**
Provision for income taxes	$4,166	$2,729
Effective tax rate	31.0 %	21.9 %

The effective tax rate for the periods noted is lower than the U.S. statutory rate due to (i) a decrease in the valuation allowance reflecting the recognition of lower taxable income versus book income for the Company’s investment in PAL (for which the Company maintains a full valuation allowance), which was partially offset by an increase in the valuation allowance for net operating losses, including Renewables (for which no tax benefit could be recognized); (ii) a lower overall effective tax rate for the Company’s foreign earnings (reflecting free-trade zone sales in El Salvador and lower statutory tax rates in both Brazil and China) and (iii) the domestic production activities deduction. These items were partially offset by (a) state and local taxes net of the assumed federal benefit and (b) losses in tax jurisdictions for which no tax benefit could be recognized.

Additionally, the effective tax rate for the three months ended March 29, 2015 included recognition of renewable energy credits.

Consolidated Net Income Attributable to Unifi, Inc.

Net income attributable to Unifi, Inc. for the third quarter of fiscal year 2016 was $9,689, or $0.54 per basic share, compared to $10,016, or $0.55 per basic share, for the prior period. After considering the loss on extinguishment of debt of $1,040 recorded in the prior year third quarter, the decrease is primarily attributable to (i) lower earnings from PAL, (ii) devaluation of the Brazilian Real versus the U.S. Dollar and (iii) an increase in the provision for bad debts, partially offset by (a) improved gross profit and (b) a decrease in SG&A expenses.

Year-To-Date Fiscal Year 2016 Compared to Year-To-Date Fiscal Year 2015

Consolidated Overview

The components of net income attributable to Unifi, Inc., each component as a percentage of net sales, and the percentage increase or decrease over the prior period amounts are presented in the table below.

	For the Nine Months Ended				
	March 27, 2016		March 29, 2015		
		% of Net Sales		% of Net Sales	% Change
Net sales	$479,779	100.0	$512,170	100.0	(6.3)
Cost of sales	413,618	86.2	446,784	87.2	(7.4)
Gross profit	66,161	13.8	65,386	12.8	1.2
Selling, general and administrative expenses	35,391	7.4	37,266	7.3	(5.0)
Provision for bad debts	1,583	0.3	647	0.1	100.0
Other operating expense, net	879	0.2	891	0.2	(1.3)
Operating income	28,308	5.9	26,582	5.2	6.5
Interest expense, net	2,189	0.5	2,364	0.5	(7.4)
Loss on extinguishment of debt	—	—	1,040	0.2	(100.0)
Equity in earnings of unconsolidated affiliates	(7,330)	(1.5)	(12,461)	(2.5)	(41.2)
Income before income taxes	33,449	6.9	35,639	7.0	(6.1)
Provision for income taxes	10,194	2.1	10,083	2.0	1.1
Net income including non-controlling interest	23,255	4.8	25,556	5.0	(9.0)
Less: net (loss) attributable to non-controlling interest	(923)	(0.2)	(955)	(0.2)	(3.4)
Net income attributable to Unifi, Inc.	$24,178	5.0	$26,511	5.2	(8.8)

Consolidated Net Sales

Consolidated net sales for the March 2016 year-to-date period decreased by $32,391, or 6.3%, as compared to the prior year comparative period.

Consolidated sales volumes decreased 1.5%, attributable to (i) weak local markets for our Brazilian subsidiary during the first half of fiscal 2016, (ii) the Company’s strategic exiting of specific low-margin business, (iii) the timing of the Easter holiday, (iv) supply chain adjustments, mostly associated with a warmer winter, and (v) comparatively lower denier (lower weight) yarn sales, partially offset by (a) increased demand for PVA yarns and (b) higher sales volume and prices for our China subsidiary.

Consolidated sales pricing declined 4.9%, primarily due to (i) the devaluation of certain foreign currencies versus the U.S. Dollar (at approximately $27,400) and (ii) lower pricing in the Polyester and Nylon Segments due to lower raw material costs, partially offset by pricing improvements attributable to the continued success of PVA programs. PVA products comprised approximately 35% of the Company’s consolidated net sales for the nine months ended March 27, 2016 as compared to approximately 30% at the end of fiscal year 2015.

Consolidated Gross Profit

Gross profit for the March 2016 year-to-date period increased by $775, or 1.2%, as compared to the prior year comparative period, reflecting increases in gross profit for the Nylon and International Segments, partially offset by a decrease in the Polyester Segment. Gross profit increased for the Nylon Segment primarily due to improved overall manufacturing efficiencies. Gross profit increased for the International Segment due to (i) an increase in sales volumes and margins for our subsidiary in China from PVA sales growth and (ii) a decrease in depreciation expense, partially offset by (a) unfavorable currency translation due to the devaluation of certain foreign currencies versus the U.S. Dollar and (b) lower sales volumes in Brazil reflecting weak local market conditions. Lower gross profit for the Polyester Segment was primarily driven by an increase in certain variable costs and depreciation expense, partially offset by mix enrichment achieved through increased demand for our PVA yarns.

Further details regarding the changes in net sales and gross profit, by reportable segment, follow.

Polyester Segment

The components of Segment Profit, each component as a percentage of net sales, and the percentage increase or decrease over the prior period amounts for the Polyester Segment are as follows:

	For the Nine Months Ended				
	March 27, 2016		March 29, 2015		
		% of Net Sales		% of Net Sales	% Change
Net sales	$275,041	100.0	$282,168	100.0	(2.5)
Cost of sales	241,145	87.7	246,718	87.4	(2.3)
Gross profit	33,896	12.3	35,450	12.6	(4.4)
Depreciation expense	8,237	3.0	7,434	2.6	10.8
Segment Profit	$42,133	15.3	$42,884	15.2	(1.8)

The change in net sales for the Polyester Segment is as follows:

Net sales for the year-to-date period of fiscal year 2015	$282,168
Decrease in average selling price	(5,998)
Decrease in sales volumes	(1,129)
Net sales for the year-to-date period of fiscal year 2016	$275,041

The overall decrease in net sales was primarily attributable to lower sales prices as a result of lower raw material costs (approximately 10% for virgin polyester raw materials). Decreased sales volumes are attributable to (i) the strategic exiting of specific lower-margin commodity business, (ii) the timing of the Easter holiday, (iii) and a lower average denier, partially offset by continued growth for our PVA yarns.

The change in Segment Profit for the Polyester Segment is as follows:

$42,884

Segment Profit for the year-to-date period of fiscal year 2015	
Decrease in underlying margins	(580)
Decrease in sales volumes	(171)
Segment Profit for the year-to-date period of fiscal year 2016	$42,133

The decrease in Segment Profit for the Polyester Segment was due to an increase in certain variable costs and pressure from low-priced, import commodity yarns. These unfavorable changes were partially offset by the favorable impact of mix enrichment achieved through increased demand for our PVA yarns and the exit of certain commodity business.

Polyester Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 57.3% and 54.6% for the year-to-date period of fiscal year 2016, compared to 55.1% and 56.2% for the year-to-date period of fiscal year 2015, respectively.

Nylon Segment

The components of Segment Profit, each component as a percentage of net sales, and the percentage increase or decrease over the prior period amounts for the Nylon Segment are as follows:

	For the Nine Months Ended				
	March 27, 2016		**March 29, 2015**		
		% of Net Sales		**% of Net Sales**	**% Change**
Net sales	$114,914	100.0	$124,676	100.0	(7.8)
Cost of sales	98,967	86.1	109,712	88.0	(9.8)
Gross profit	15,947	13.9	14,964	12.0	6.6
Depreciation expense	1,542	1.3	1,414	1.1	9.1
Segment Profit	$17,489	15.2	$16,378	13.1	6.8

34

The change in net sales for the Nylon Segment is as follows:

Net sales for the year-to-date period of fiscal year 2015	$124,676
Decrease in sales volumes	(7,162)
Decrease in average selling price and change in sales mix	(2,600)
Net sales for the year-to-date period of fiscal year 2016	$114,914

The decrease in net sales is attributable to (i) lower sales volumes for certain commodity textured yarns, (ii) certain inventory adjustments in the supply chain, mostly due to a warm winter season and the timing of the Easter holiday, (iii) a decrease in pricing following the decline in raw material costs, and (iv) currency devaluation for the Colombian Peso of approximately $1,060.

The change in Segment Profit for the Nylon Segment is as follows:

Segment Profit for the year-to-date period of fiscal year 2015	$16,378
Improvement in underlying margins	2,052
Decrease in sales volumes	(941)
Segment Profit for the year-to-date period of fiscal year 2016	$17,489

The increase in Segment Profit was primarily due to improved manufacturing efficiencies, despite lower sales volume (as discussed above). Underlying margins were negatively impacted by currency devaluation for the Colombian Peso of approximately $250.

Nylon Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 23.9% and 22.7% for the year-to-date period of fiscal year 2016, compared to 24.3% and 21.5% for the year-to-date period of fiscal year 2015, respectively.

International Segment

The components of Segment Profit, each component as a percentage of net sales, and the percentage increase or decrease over the prior period amounts for the International Segment are as follows:

	For the Nine Months Ended				
	March 27, 2016		March 29, 2015		
		% of Net Sales		% of Net Sales	% Change
Net sales	$85,275	100.0	$101,017	100.0	(15.6)
Cost of sales	68,654	80.5	85,613	84.7	(19.8)
Gross profit	16,621	19.5	15,404	15.3	7.9
Depreciation expense	649	0.8	1,738	1.7	(62.7)
Segment Profit	$17,270	20.3	$17,142	17.0	0.7

The change in net sales for the International Segment is as follows:

Net sales for the year-to-date period of fiscal year 2015	$101,017
Unfavorable currency translation effects (Brazilian Real and Chinese Renminbi)	(26,361)
Decrease in sales volumes	(1,686)
Improvement in average selling price and change in sales mix	12,305
Net sales for the year-to-date period of fiscal year 2016	$85,275

The decrease in net sales was attributable to (i) unfavorable currency translation due to the devaluation of the Brazilian Real versus the U.S. Dollar (using a weighted average exchange rate of 3.74 Real/U.S. Dollar versus 2.54) and weakening of the Chinese Renminbi versus the U.S. Dollar and (ii) approximately 5% lower sales volumes for our Brazilian subsidiary, due to weak local markets in the first half of the fiscal year. Sales volumes and average selling price both increased more than 15% for our subsidiary in China, benefiting from several new sales programs.

The change in Segment Profit for the International Segment is as follows:

Segment Profit for the year-to-date period of fiscal year 2015	$17,142
Improvements in underlying margins	5,025
Unfavorable currency translation effects (Brazilian Real and Chinese Renminbi)	(4,612)
Decrease in sales volumes	(285)
Segment Profit for the year-to-date period of fiscal year 2016	$17,270

The increase in Segment Profit for the International Segment was attributable to (i) improved margins in Brazil based on a greater mix of higher-margin manufactured products and (ii) improved margins in China due to the growth of PVA programs in Asia. The increase was partially offset by (a) unfavorable currency translation effects due to the devaluation of both the Brazilian Real and Chinese Renminbi against the U.S. Dollar and (b) lower sales volumes for our subsidiary in Brazil due to the weak market conditions noted in the net sales analysis above.

International Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 17.8% and 22.4% for the year-to-date period of fiscal year 2016, compared to 19.7% and 22.5% for the year-to-date period of fiscal year 2015, respectively.

Consolidated Selling, General and Administrative Expenses

The change in SG&A expenses is as follows:

SG&A expenses for the year-to-date period of fiscal year 2015	$37,266
Decrease in variable compensation	(776)
Decrease in professional fees	(444)
Decrease in non-cash compensation expenses	(273)
Decrease in depreciation and amortization expenses	(212)
Increase in consumer marketing and branding expenses	724
Other, net	(894)
SG&A expenses for the year-to-date period of fiscal year 2016	$35,391

Total SG&A expenses were lower versus the prior year period, primarily attributable to (i) a decrease in variable compensation expense due to the performance of our domestic and Brazilian operations in relation to established targets, (ii) a decrease in professional fees due to a reduction in out-sourced auxiliary tax, legal and other services, (iii) a decrease in non-cash compensation expense for an unfunded post-employment plan, driven by changes in a significant equity market index, (iv) a decrease in depreciation and amortization expenses due to lower amortization of customer lists and (v) a decrease due to the impact of currency translation. These decreases were partially offset by an increase in consumer marketing and branding expenses resulting from the timing and magnitude of expenses for advertising and sponsorship agreements, primarily for REPREVE®.

Consolidated Provision for Bad Debts

Provision for bad debts increased $936 versus the prior year period. The increase reflects provision for a specific polyester customer balance, for which the Company has determined recovery to be unlikely.

Consolidated Other Operating Expense, Net

Other operating expense, net changed insignificantly, and consisted primarily of offsetting changes resulting from (i) a reduction in foreign currency transaction losses, and (ii) an increase in severance charges.

Consolidated Interest Expense, Net

Interest expense, net decreased $175, and reflected the following components:

	For the Nine Months Ended	
	March 27, 2016	**March 29, 2015**
Interest and fees on the ABL Facility	$2,221	$2,651
Other interest	634	134
Subtotal of interest on debt obligations	2,855	2,785
Reclassification adjustment for interest rate swap	57	212
Amortization of debt financing fees	305	402
Mark-to-market adjustment for interest rate swap	(55)	(19)
Interest capitalized	(454)	(143)
Subtotal of other components of interest expense	(147)	452
Total interest expense	2,708	3,237
Interest income	(519)	(873)
Interest expense, net	$2,189	$2,364

36

Interest and fees on the ABL Facility decreased in connection with a decline in the weighted average interest rate from 3.0% to 2.3%, partially offset by (i) an increase in the average debt balance from $104,688 to $107,240 and (ii) $177 of fees incurred in fiscal year 2016 in connection with the first annual principal reset of the term loan.

The increase in other interest reflects the increase in the average capital lease obligation from $4,518 to $18,012.

The Company capitalized more interest in the current period, driven by increased capital expenditures, the majority of which relate to the construction of our plastic bottle processing facility.

Interest income in each period includes earnings recognized on cash equivalents held globally. Interest income decreased from the comparable prior year period due to a lower average balance of interest-bearing cash equivalents held by our Brazil subsidiary (where interest rates are highest among the Company's subsidiaries) and changes in currency translation attributable to the devaluation of the Brazilian Real against the U.S. Dollar.

Loss on Extinguishment of Debt

During the March 2015 period, the Company recorded a loss on extinguishment of debt of $1,040 for the write-off of certain debt financing fees related to a previous credit agreement. There was no similar activity during the March 2016 period.

Consolidated Earnings from Unconsolidated Affiliates

The components of earnings from unconsolidated affiliates are as follows:

	For the Nine Months Ended	
	March 27, 2016	**March 29, 2015**
Earnings from PAL	$(5,214)	$(11,427)
Earnings from nylon joint ventures	(2,116)	(1,034)
Total equity in earnings of unconsolidated affiliates	$(7,330)	$(12,461)

As a percentage of consolidated income before income taxes	21.9 %	35.0 %

The Company's 34% share of PAL's earnings decreased, which the Company understands is primarily attributable to (i) lower volumes related to an inventory correction in the supply chain, (ii) higher start-up and depreciation expenses in connection with recent expansions, (iii) lower operating margins primarily as a result of significant price pressure, (iv) slightly lower cotton rebate earnings in the current period as compared to the prior year period and (v) a bargain purchase gain (the Company's share of which was $1,506) recognized in the prior year period by PAL from the acquisition of the remaining 50% joint venture interest in a yarn manufacturer based in Mexico (referred to as Summit).

The remaining change in earnings from unconsolidated affiliates relates to improved combined operating results for the Company's two nylon extrusion joint ventures that supply POY to the Company's Nylon Segment, resulting from slightly increased volumes and lower raw material costs.

Consolidated Income Taxes

The change in consolidated income taxes is as follows:

	For the Nine Months Ended	
	March 27, 2016	**March 29, 2015**
Provision for income taxes	$10,194	$10,083
Effective tax rate	30.5 %	28.3 %

37

The effective tax rate for the periods presented above is lower than the U.S. statutory rate due to (i) a decrease in the valuation allowance reflecting the recognition of lower taxable income versus book income for the Company's investment in PAL (for which the Company maintains a full valuation allowance), which was partially offset by an increase in the valuation allowance for net operating losses, including Renewables (for which no tax benefit could be recognized); (ii) a lower overall effective tax rate for the Company's foreign earnings (reflecting free-trade zone sales in El Salvador and lower statutory tax rates in both Brazil and China) and (iii) the domestic production activities deduction. These items were partially offset by (a) state and local taxes net of the assumed federal benefit and (b) losses in tax jurisdictions for which no tax benefit could be recognized.

Additionally, the effective tax rate for the nine months ended March 29, 2015 included recognition of renewable energy credits.

Consolidated Net Income Attributable to Unifi, Inc.

Net income attributable to Unifi, Inc. for the year-to-date period of fiscal year 2016 was $24,178, or $1.35 per basic share, compared to $26,511, or $1.46 per basic share, for the prior year period. After considering the loss on extinguishment of debt of $1,040 recorded in the prior year third quarter, the decrease in net income is primarily attributable to (i) a decrease in earnings from PAL, (ii) further unfavorable devaluation of the Brazilian Real versus the U.S. Dollar and (iii) an increase in the provision for bad debts, partially offset by (a) an increase in gross profit, (b) a decrease in SG&A expenses and (c) improved earnings from our nylon joint ventures.

Liquidity and Capital Resources

The Company's primary capital requirements are for working capital, capital expenditures, debt service and stock repurchases. The Company's primary sources of capital are cash generated from operations and borrowings available under the ABL Revolver, as described below. For the nine months ended March 27, 2016, cash generated from operations was $38,243, and at March 27, 2016, excess availability under the ABL Revolver was $78,049.

As of March 27, 2016, $116,376 of the Company's $121,761 of debt obligations were guaranteed by certain of its domestic operating subsidiaries, while nearly all of the Company's cash and cash equivalents were held by other subsidiaries within the consolidated group (Renewables and foreign subsidiaries). Cash and cash equivalents held by such other subsidiaries may not be presently available to fund the Company's domestic capital requirements, including its domestic debt obligations. The Company employs a variety of tax planning and financing strategies to ensure that its worldwide cash is available in the locations where it is needed. The following table presents a summary of cash and cash equivalents, liquidity, working capital and total debt obligations as of March 27, 2016:

	U.S.	Brazil	Renewables[2]	Others	Total
Cash and cash equivalents	$9	$3,801	$ 884	$10,593	$15,287
Borrowings available under financing arrangements [1]	78,049	—	—	—	78,049
Liquidity	$78,058	$3,801	$ 884	$10,593	$93,336
Working capital	$81,088	$31,959	$ 1,218	$22,626	$136,891
Total debt obligations	$116,376	$—	$ 4,135	$1,250	$121,761

(1) Excludes consideration for amounts available under a construction financing arrangement as such borrowings are specific to a capital project. For additional information, see "—*Construction Financing*" within *Debt Obligations* below.

(2) Although Renewables operates in the U.S., presenting its liquidity measures separate from U.S. operations provides a more accurate depiction of the Company's domestic liquidity.

As of March 27, 2016, $67,566 of earnings and profits of the Company's foreign operations are deemed to be permanently reinvested, including all cash and cash equivalents on-hand at the Company's wholly-owned foreign subsidiaries. In accordance with ASC 740-30-25-17, the Company has no current or deferred tax liabilities recorded (which considers any applicable U.S. federal income taxes and foreign withholding taxes) based on this indefinite reinvestment assertion. Nevertheless, in future periods, the Company will continue to assess the existing circumstances, including any changes in tax laws, and reevaluate the necessity for any deferred tax liability. Computation of the potential tax liabilities associated with indefinitely reinvested earnings is not practicable.

Debt Obligations

On March 26, 2015, the Company and its subsidiary, Unifi Manufacturing, Inc., entered into an Amended and Restated Credit Agreement (as subsequently amended, the “Amended Credit Agreement”) for a $200,000 senior secured credit facility (the “ABL Facility”) with a syndicate of lenders. The ABL Facility consists of a $100,000 revolving credit facility (the “ABL Revolver”) and a term loan that can be reset up to a maximum amount of $100,000, once per fiscal year, if certain future conditions are met (the “ABL Term Loan”). Such a principal increase occurred during the quarter ended December 27, 2015, in connection with a second amendment, resetting the ABL Term Loan principal to $95,000. The ABL Facility has a maturity date of March 26, 2020.

The Amended Credit Agreement replaced a previous senior secured credit facility dated May 24, 2012 with a similar syndicate of lenders, which, after multiple amendments, would have matured on March 28, 2019 and consisted of a $100,000 revolving credit facility and a $90,000 term loan. As used herein, the terms “ABL Facility,” “ABL Revolver” and “ABL Term Loan” shall mean the senior secured credit facility, the revolving credit facility or the term loan, respectively, under the Amended Credit Agreement or the previous senior secured credit facility, as applicable.

The Amended Credit Agreement includes representations and warranties made by the loan parties, affirmative and negative covenants and events of default that are usual and customary for financings of this type. In addition, the ABL Facility contains restrictions on certain payments and investments, including restrictions on the payment of dividends and share repurchases. Subject to certain provisions, the ABL Term Loan may be prepaid at par, in whole or in part, at any time before the maturity date, at the Company’s discretion.

ABL Facility borrowings bear interest at variable rates based on a margin applied to a benchmark rate. There is also a monthly unused line fee under the ABL Revolver of 0.25%.

ABL Facility

The ABL Facility is secured by a first-priority perfected security interest in substantially all owned property and assets (together with proceeds and products) of Unifi, Inc., Unifi Manufacturing, Inc. and certain subsidiary guarantors (the “Loan Parties”). It is also secured by a first-priority security interest in all (or 65% in the case of certain first-tier controlled foreign corporations, as required by the lenders) of the stock of (or other ownership interests in) each of the Loan Parties (other than the Company) and certain subsidiaries of the Loan Parties, together with all proceeds and products thereof.

If excess availability under the ABL Revolver falls below the defined Trigger Level, a financial covenant requiring the Loan Parties to maintain a fixed charge coverage ratio on a monthly basis of at least 1.05 to 1.0 becomes effective.

The Trigger Level as of March 27, 2016 was $24,078. In addition, the ABL Facility contains restrictions on particular payments and investments, including certain restrictions on the payment of dividends and share repurchases. Subject to specific provisions, the ABL Term Loan may be prepaid at par, in whole or in part, at any time before the maturity date, at the Company's discretion.

As of March 27, 2016, the Company was in compliance with all financial covenants and the excess availability under the ABL Revolver was $78,049. At March 27, 2016, the fixed charge coverage ratio was 2.8 to 1.0 and the Company had $200 of standby letters of credit, none of which have been drawn upon.

Second Amendment

On November 19, 2015, the Company entered into the Second Amendment to Amended and Restated Credit Agreement ("Second Amendment"). The Second Amendment increased the percentage applied to real estate valuations, on a one-time basis, from 60% to 75%, for purposes of calculating the Term Loan collateral. Simultaneous to entering into the Second Amendment, the Company entered into the Fourth Amended and Restated Term Note, thereby resetting the ABL Term Loan balance to $95,000. Pursuant to the Second Amendment, the ABL Term Loan is subject to quarterly amortizing payments of $2,375.

Term Loan from Unconsolidated Affiliate

On August 30, 2012, a foreign subsidiary of the Company entered into an unsecured loan agreement under which it borrowed $1,250 from the Company's unconsolidated affiliate, U.N.F. Industries Ltd. The entire principal balance was repaid in April 2016.

Construction Financing

In December 2015, the Company entered into an agreement with a third-party lender that provides for construction-period financing for certain build-to-suit assets. The Company will record project costs to construction in progress and the corresponding liability to construction financing (within long-term debt). The agreement provides for monthly, interest-only payments during the construction period, at a rate of 3.5%, and contains terms customary for a financing of this type.

The agreement provides for 60 monthly payments, which will commence at the earlier of the completion of the construction period or July 1, 2017, with an interest rate of 3.2%.

In connection with this construction financing arrangement, the Company has recorded (i) $210 of deferred financing fees and (ii) long-term debt of $3,889 (to reflect $790 of proceeds for construction financing and $3,099 for construction in progress paid by the third party lender).

Summary of Debt Obligations

The following table presents the total balances outstanding for the Company's debt obligations, their scheduled maturity dates and the weighted average interest rates for borrowings as well as the applicable current portion of long-term debt:

	Scheduled Maturity Date	Weighted Average Interest Rate as of March 27, 2016 (1)	Principal Amounts as of March 27, 2016	Principal Amounts as of June 28, 2015
ABL Revolver	March 2020	2.2%	$3,000	$5,000
ABL Term Loan	March 2020	2.5%	92,625	82,125
Renewables' promissory note	September 2020	3.0%	135	—
Renewables' term loan	August 2022	3.7%	4,000	—
Term loan from unconsolidated affiliate	August 2016 (2)	3.0%	1,250	1,250
Capital lease obligations	(3)	(4)	16,862	15,735
Construction financing	(5)	(5)	3,889	—
Total debt			121,761	104,110
Current portion of capital lease obligations			(4,282)	(3,385)
Current portion of long-term debt			(10,776)	(9,000)
Total long-term debt			$106,703	$91,725

(1) The weighted average interest rate as of March 27, 2016 for the ABL Term Loan includes the effects of the interest rate swap with a notional balance of $50,000.
(2) Repaid in full in April 2016.
(3) Scheduled maturity dates for capital lease obligations range from January 2017 to November 2027.

(4) Interest rates for capital lease obligations range from 2.3% to 4.6%.
(5) Refer to the discussion above under the subheading "—*Construction Financing*" for further information.

In addition to payments in accordance with the scheduled maturities of debt required under its existing debt obligations, the Company may, from time to time, elect to repay additional amounts borrowed under the ABL Facility. Funds to make such repayments may come from the operating cash flows of the business or other sources and will depend upon the Company's strategy, prevailing market conditions, liquidity requirements, contractual restrictions and other factors.

Scheduled Debt Maturities

The following table presents the scheduled maturities of the Company's outstanding debt obligations for the remainder of fiscal year 2016 and the fiscal years thereafter:

	Scheduled Maturities on a Fiscal Year Basis					
	2016	**2017**	**2018**	**2019**	**2020**	**Thereafter**
ABL Revolver	$—	$—	$—	$—	$3,000	$ —
ABL Term Loan	2,375	9,500	9,500	9,500	61,750	—
Renewables' promissory note	—	25	26	27	28	29
Renewables' term loan	—	—	—	—	1,111	2,889
Term loan from unconsolidated affiliate [(1)]	—	1,250	—	—	—	—
Capital lease obligations	1,064	4,261	4,128	4,058	2,542	809
Total [(2)]	$3,439	$15,036	$13,654	$13,585	$68,431	$ 3,727

(1) Repaid in full in April 2016.
(2) Total reported here excludes $3,889 for construction financing, described above.

Further discussion of the terms and conditions of the Amended Credit Agreement and Company's existing indebtedness is included in note 9.

40

Repreve Renewables, LLC

During the first quarter of fiscal year 2016, Renewables incurred $135 of seller-financed debt for the purchase of thirty-seven acres of land located in Seven Springs, North Carolina, valued at $191. The related promissory note bears fixed interest at 3.0%, with principal and interest payable annually over a five-year period. Also, Renewables entered into a secured debt financing arrangement, consisting of a master loan agreement and corresponding term loan supplement having a borrowing capacity of $4,000, with CoBank, ACB and Carolina Farm Credit, ACA. The financing arrangement includes representations and warranties made by Renewables, financial covenants, affirmative and negative covenants and events of default that are usual and customary for financings of this type.

In October 2015, Renewables borrowed $4,000 on the above term loan, bearing interest at LIBOR plus an applicable margin of 3.25%, payable monthly in arrears. Principal payments of $111 per month begin in September 2019 and are payable through July 2022, followed by a final payment equal to the remaining unpaid principal balance in August 2022.

These borrowings will help Renewables (i) accelerate expansion of its operations, including a new processing center in North Carolina and (ii) secure additional land leases and execute its fiscal 2016 planting targets, which are intended to meet the growing demand for giant miscanthus in applications such as poultry bedding and bio-fuel.

Working Capital

The following table presents a summary of the components of the Company's Adjusted Working Capital and the reconciliation from Adjusted Working Capital to working capital:

	March 27, 2016	**June 28, 2015**
Receivables, net	$82,454	$83,863
Inventories	105,944	111,615
Accounts payable	(42,143)	(45,023)
Accrued expenses	(15,053)	(16,640)
Adjusted Working Capital	131,202	133,815
Cash and cash equivalents	15,287	10,013
Other current assets	6,864	7,473
Other current liabilities	(16,462)	(13,061)
Working capital	$136,891	$138,240

The decrease in receivables, net is primarily attributable to devaluation of the Brazilian Real versus the U.S. Dollar. The decrease in inventories is attributable to lower raw material costs, a reduction in inventory units and devaluation of the Brazilian Real. The decrease in accounts payable reflects the timing of vendor purchases and lower raw material costs. The decrease in accrued expenses is primarily attributable to the payment of amounts due for variable compensation earned in fiscal year 2015. Working capital was further impacted by an increase in cash, primarily due to cash generated by certain foreign subsidiaries and Renewables borrowing against a term loan. Other current liabilities increased, primarily due to (i) the classification of $1,250 to current maturities of long-term debt for a term loan from an unconsolidated affiliate and (ii) an increase in short-term payments due for capital lease obligations resulting from the addition of capital leases during the period.

Capital Projects

In addition to its normal working capital requirements, the Company requires cash to fund capital projects. The Company expects to invest approximately $100,000 in capital projects over the course of fiscal years 2016 and 2017, which is inclusive of (i) the construction financing arrangement described above and (ii) approximately $10,000 of maintenance capital expenditures per year (i.e. expenditures that extend the useful life of existing assets and/or increase the capabilities or production capacity of the assets). These capital projects include initiatives to expand our existing business and pursue PVA growth opportunities, including backward integration into plastic bottle processing and bottle flake production, primarily for the Polyester Segment, and specifically for REPREVE®. During the nine months ended March 27, 2016, the Company invested approximately $44,000 in capital projects (including amounts funded by capital leases and a construction financing arrangement), consisting of various fixed asset types, primarily machinery and equipment.

The total amount ultimately invested for fiscal years 2016 and 2017 could be more or less depending on the timing and scale of contemplated initiatives, and is expected to be funded by a combination of cash from operations, borrowings under the ABL Revolver, new capital lease obligations and a construction financing arrangement. The Company expects the capital projects undertaken over the course of fiscal years 2016 and 2017 to provide benefits to future profitability. The additional assets from these capital projects consist primarily of machinery and equipment.

As a result of our continued focus on REPREVE® and other PVA yarns as part of our mix enrichment strategy, we may incur additional expenditures for capital projects, beyond the currently estimated amount, as we pursue new, currently unanticipated, opportunities in order to expand our manufacturing capabilities for these products, for other strategic growth initiatives or to further streamline our manufacturing process, in which case we may be required to increase the amount of our working capital and long-term borrowings. If our strategy is successful, we would expect higher gross profit as a result of the combination of potentially higher sales volumes and an improved mix from higher-margin yarns.

Stock Repurchase Program

The Company repurchased a total of 206 shares during the current year-to-date period, at an average price of $30.13. As of March 27, 2016, the Company has repurchased a total of 3,147 shares, at an average price of $23.01 (for a total of $72,438 inclusive of commission costs) pursuant to its two Board-approved stock repurchase programs. $27,603 remains available under the current Board-approved stock repurchase program as of March 27, 2016.

Liquidity Summary

The Company has met its historical liquidity requirements for working capital, capital expenditures, debt service requirements and other operating needs from its cash flows from operations and available borrowings. The Company believes that its existing cash balances, cash provided by operating activities, and borrowings available under the ABL Revolver will enable the Company to comply with the terms of its indebtedness and meet its foreseeable liquidity requirements. Domestically, the Company’s cash balances, cash provided by operating activities and borrowings available under the ABL Revolver continue to be sufficient to fund the Company’s domestic operating activities as well as cash commitments for its investing and financing activities. For its current foreign operations, the Company expects its existing cash balances and cash provided by operating activities will provide the needed liquidity to fund its foreign operating and investing activities. However, if the Company expands its foreign asset base, the Company may require cash from its domestic sources.

Cash Provided by Operating Activities

Net cash provided by operating activities increased from $19,697 for the prior year-to-date period to $38,243 for the current year-to-date period. The significant components of cash provided by operating activities are summarized below.

	For The Nine Months Ended March 27, 2016	March 29, 2015
Net income including non-controlling interest	$23,255	$25,556
Equity in earnings of unconsolidated affiliates	(7,330)	(12,461)
Subtotal	15,925	13,095
Distributions received from unconsolidated affiliates	2,947	598
Deferred income taxes	7,015	(74)
Other changes	12,356	6,078
Net cash provided by operating activities	$38,243	$19,697

The increase is primarily attributable to (i) significantly lower taxes paid in the current period (due, in large part, to the favorable depreciation provisions of the Protecting Americans from Tax Hikes Act of 2015, enacted in December 2015) and (ii) $2,947 of distributions from unconsolidated affiliates received in the current period, when only $598 of such receipts occurred in the comparable prior period. Additionally, net income including non-controlling interest, after taking into account non-cash earnings from equity affiliates, is approximately $2,800 higher than the prior period.

The increase is also favorably impacted by a lower amount of cash utilized for working capital, most notably relating to inventories.

Cash Used in Investing Activities and Cash Provided by Financing Activities

The Company utilized $36,676 (net) for investing activities and received $4,444 (net) from financing activities during the current year-to-date period.

Significant investing activities include $36,769 for capital expenditures, which primarily relate to the addition of machinery, equipment and infrastructure for the Company's new plastic bottle processing plant at our existing location in Reidsville, North Carolina, which is expected to start production in the summer of calendar year 2016, along with other capital expenditures to improve the Company's manufacturing flexibility and capability to produce PVA products and to increase the capacity of our REPREVE® Recycling Center.

Significant financing activities include $8,500 for net borrowings against the ABL Facility along with $4,000 for a term loan supplement, partially offset by $6,211 for stock repurchases.

Contractual Obligations

The Company has incurred various financial obligations and commitments in the normal course of its operations and financing activities. Financial obligations are considered to represent known future cash payments that the Company is required to make under existing contractual arrangements, such as debt and lease agreements.

Changes to the Company's obligations under various debt and financing arrangements during the nine months ended March 27, 2016 have been outlined in note 9, with supplemental discussions above in this Item 2.

During the first quarter of fiscal year 2016, the Company entered into certain agreements to purchase assets in connection with the construction of a plastic bottle processing plant (as previously discussed) for the Polyester Segment. At March 27, 2016, unpaid amounts relating to these agreements total approximately $7,300.

From time to time, the Company exchanges equipment or extends the term of operating leases for certain transportation equipment under a master lease agreement. During the nine months ended March 27, 2016, the Company exchanged multiple power units pursuant to such master lease agreement, with terms extending over the next four to six years. The increase to the respective June 28, 2015 obligation approximates $6,300 as of March 27, 2016.

In October 2015, the Company entered into a commitment to construct assets for use in connection with a contract-manufacturing project for a third-party. While the subject assets are being financed by a construction financing arrangement (described above), in the course of facilitating construction, the Company will incur commitments to equipment vendors and contractors. As of March 27, 2016, such commitments total approximately $6,300.

During the quarter ended March 27, 2016, the Company entered into a three year agreement with a vendor for waste removal services related to the future operation of its bottle processing facility. The minimum commitment under this contract is approximately $2,600.

The Company will incur commitments to contractors and equipment vendors related to the expansion of its REPREVE® Recycling Center. As of March 27, 2016, such commitments total approximately $4,100.

There have been no further material changes in the scheduled maturities of the Company's contractual obligations as disclosed in the table under the subheading "Contractual Obligations" of Item 7 in the 2015 Form 10-K.

Off Balance Sheet Arrangements

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

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The SEC has defined a company's most critical accounting policies as those involving accounting estimates that require management to make assumptions about matters that are highly uncertain at the time and where different reasonable estimates or changes in the accounting estimates from quarter to quarter could materially impact the presentation of the financial statements. The Company's critical accounting policies are discussed in the 2015 Form 10-K. There have been no material changes to these policies during the current period.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks associated with changes in interest rates, fluctuation in currency exchange rates, and raw material and commodity costs, which may adversely affect its financial position, results of operations or cash flows. The Company does not enter into derivative financial instruments for trading purposes, nor is it a party to any leveraged financial instruments.

Interest Rate Risk

The Company is exposed to interest rate risk through its borrowing activities. As of March 27, 2016, the Company had borrowings under its ABL Revolver and ABL Term Loan that totaled $95,625 and contained variable rates of interest; however, the Company hedges a significant portion of such interest rate variability using an interest rate swap. After considering the variable rate debt obligations that have been hedged and the Company's outstanding debt obligations with fixed rates of interest, the Company's sensitivity analysis shows that a 50-basis point increase in LIBOR as of March 27, 2016 would result in an increase of $248 in annual interest expense.

Currency Exchange Rate Risk

The Company conducts its business in various foreign countries and in various foreign currencies. Each of the Company's subsidiaries may enter into transactions (sales, purchases, fixed purchase commitments, etc.) that are denominated in currencies other than the subsidiary's functional currency and thereby expose the Company to foreign currency exchange risk. The Company may enter into foreign currency forward contracts to hedge this exposure. The Company may also enter into foreign currency forward contracts to hedge its exposure for certain equipment or inventory purchase commitments. As of March 27, 2016, the Company had no outstanding foreign forward currency contracts.

A significant portion of raw materials purchased by the Company's Brazilian subsidiary is denominated in U.S. Dollars, requiring the Company to regularly exchange Brazilian Real. During recent years, and most notably in fiscal year 2015, the Company has been negatively impacted by a devaluation of the Brazilian Real. During fiscal year 2015, the Brazilian Real declined approximately 40% in relation to the U.S. Dollar, thereby reducing the utility of cash and cash equivalents held by the Company's Brazilian subsidiary. Further devaluation of the Brazilian Real versus the U.S. Dollar occurred during the first nine months of fiscal year 2016. Predicting fluctuations in the Brazilian Real is impracticable. Discussion and analysis surrounding the impact of the devaluation of the Brazilian Real on the Company's results of operations is included above in Item 2.

As of March 27, 2016, the Company's subsidiaries outside the U.S., whose functional currency is other than the U.S. Dollar, held approximately 12.1% of the Company's consolidated total assets. The Company does not enter into foreign currency derivatives to hedge its net investment in its foreign operations.

As of March 27, 2016, $10,498, or 68.7%, of the Company's cash and cash equivalents were held outside the U.S., of which approximately $3,738 were held in U.S. Dollar equivalents.

More information regarding the Company's derivative financial instruments as of March 27, 2016 is provided in note 14.

Raw Material and Commodity Risks

A significant portion of the Company's raw materials and energy costs are derived from petroleum-based chemicals. The prices for petroleum and petroleum-related products and energy costs are volatile and dependent on global supply and demand dynamics, including certain geo-political risks. The Company does not use financial instruments to hedge its exposure to changes in these costs. The costs of the primary raw materials that the Company uses throughout all of its operations are generally based on U.S. Dollar pricing; and such materials are purchased at market or at fixed prices that are established with individual vendors as part of the purchasing process for quantities expected to be consumed in the ordinary course of business.

Other Risks

The Company is also exposed to political risk, including changing laws and regulations governing international trade, such as quotas, tariffs and tax laws. The degree of impact and the frequency of these events cannot be predicted.

Item 4. CONTROLS AND PROCEDURES

(a) As of March 27, 2016, an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) was performed under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer. Based on that evaluation, the Company’s principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) During the Company’s third quarter of fiscal year 2016, there was no change in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

There are no material changes to the Company's risk factors set forth under “Item 1A. Risk Factors” in the 2015 Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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

(c) The following table summarizes the Company’s purchases of its common stock during the fiscal quarter ended March 27, 2016, all of which purchases were made under the stock repurchase program approved by the Board on April 23, 2014, under which the Company is authorized to acquire up to $50,000 of common stock. The repurchase program has no stated expiration or termination date, and there is no time limit or specific time frame for repurchases.

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs**
12/28/15 – 1/27/16	—	$ —	—	$ 27,603

1/28/16 – 2/27/16	—	$	—	—	27,603
2/28/16 – 3/27/16	—	$	—	—	27,603
Total	—	$	—	—	

Repurchases are subject to applicable limitations and requirements set forth in the ABL Facility. For additional information, including information regarding limitations on payment of dividends and share repurchases, see note 9.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

Exhibit Number	Description
3.1(i)(a)	Restated Certificate of Incorporation of Unifi, Inc. (the “Company”), as amended (incorporated by reference to Exhibit 3a to the Company’s Annual Report on Form 10-K for the fiscal year ended June 27, 2004 (Reg. No. 001-10542) filed on September 17, 2004).
3.1(i)(b)	Certificate of Change to the Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K (Reg. No. 001-10542) dated July 25, 2006).
3.1(i)(c)	Certificate of Amendment to Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K (Reg. No. 001-10542) dated November 3, 2010).
3.1(ii)	Restated By-laws of the Company (last amended July 23, 2014) (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K (Reg. No. 001-10542) filed on July 23, 2014).
4*	None*
31.1+	Principal executive officer’s certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Principal financial officer’s certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Principal executive officer’s certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Principal financial officer’s certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101+	The following materials from the Company’s Quarterly Report on Form 10-Q for the quarterly period ended March 27, 2016, formatted in eXtensbile Business Reporting Language (“XBRL”): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

+ Filed herewith

* The Company has long-term debt but has not filed the instruments evidencing such debt as part of Exhibit 4, as none of such instruments authorizes the issuance of debt exceeding 10 percent of the total consolidated assets of the Company. The Company agrees to furnish a copy of each such agreement to the Securities and Exchange Commission upon request.

47

SIGNATURES

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

UNIFI, INC.

(Registrant)

Date:	May 5, 2016	By:	/s/ SEAN D. GOODMAN Sean D. Goodman Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer and Duly Authorized Officer)

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49