

**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF**

In re AFY Holding Co / American Fibers and Yarns Company

Case No. 08-12175 / 08-12176  
Reporting Period: 2/1/09 - 2/28/09

**MONTHLY OPERATING REPORT**

File with Court and submit copy to United States Trustee within 20 days after end of month.

Submit copy of report to any official committee appointed in the case.

Document Description	Form No.	Document Attached	Excluded or Attached	Filed or Supplemental
Schedule of Cash Receipts and Disbursements	MOR-1	✓		
Bank Reconciliation (or copies of debtor's bank reconciliations)	MOR-1a	✓		
Schedule of Professional Fees Paid	MOR-1b	✓		
Copies of bank statements				
Cash disbursements journals				
Statement of Operations	MOR-2	✓		
Balance Sheet	MOR-3	✓		
Status of Postpetition Taxes	MOR-4	✓		
Copies of IRS Form 6123 or payment receipt				
Copies of tax returns filed during reporting period				
Summary of Unpaid Postpetition Debts	MOR-4	✓		
Listing of aged accounts payable	MOR-4	✓		
Accounts Receivable Reconciliation and Aging	MOR-5	✓		
Debtor Questionnaire	MOR-5	✓		

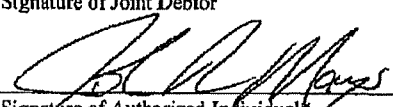
I declare under penalty of perjury (28 U.S.C. Section 1746) that this report and the attached documents are true and correct to the best of my knowledge and belief.

\_\_\_\_\_  
Signature of Debtor

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Joint Debtor

\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Signature of Authorized Individual

3/20/09  
\_\_\_\_\_  
Date

JOHN R. MAYS  
\_\_\_\_\_  
Printed Name of Authorized Individual

PRESIDENT  
\_\_\_\_\_  
Title of Authorized Individual

\*Authorized individual must be an officer, director or shareholder if debtor is a corporation; a partner if debtor is a partnership; a manager or member if debtor is a limited liability company.

**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS**

Amounts reported should be per the debtor's books, not the bank statement. The beginning cash should be the ending cash from the prior month or, if this is the first report, the amount should be the balance on the date the petition was filed. The amounts reported in the "CURRENT MONTH - ACTUAL" column must equal the sum of the four bank account columns. The amounts reported in the "PROJECTED" columns should be taken from the SMALL BUSINESS INITIAL REPORT (FORM IR-1). Attach copies of the bank statements and the cash disbursements journal. The total disbursements listed in the disbursements journal must equal the total disbursements reported on this page. A bank reconciliation must be attached for each account. [See MOR-1 (CONT)]

	BANK ACCOUNTS				CURRENT MONTH		CUMULATIVE FILING TO DATE	
	OPER.	PAYROLL	TAX	OTHER	ACTUAL	PROJECTED	ACTUAL	PROJECTED
<b>CASH BEGINNING OF MONTH</b>	237,767.38				237,767.38	-	742,889.65	
<b>RECEIPTS</b>								
CASH SALES					0		0	
ACCOUNTS RECEIVABLE	49,704.75				49,704.75	200,000.00	9,197,803.46	9,316,230.75
LOANS AND ADVANCES	247,000.00				247,000.00	391,212.42	4,629,500.00	5,293,160.39
SALE OF ASSETS	0				0	0.00	0	4,398,168.44
OTHER (ATTACH LIST)	245,528.63				245,528.63	-	1,797,322.72	-
TRANSFERS (FROM DIP ACCTS)					0		0	0
					0		0	0
<b>TOTAL RECEIPTS</b>	542,233.38				542,233.38	591,212.42	15,624,626.18	19,007,559.59
<b>DISBURSEMENTS</b>								
NET PAYROLL	43,799.10				43,799.10	54,880.00	1,010,698.47	1,482,582.23
PAYROLL TAXES	22,964.87				22,964.87	-	449,368.88	11,991.58
SALES, USE, & OTHER TAXES	-				-	-	149,681.04	164,752.00
INVENTORY PURCHASES	29,588.58				29,588.58	-	834,905.35	777,056.48
SECURED/ RENTAL/ LEASES	1,600.00				1,600.00	6,000.00	85,226.96	74,544.51
INSURANCE	192.00				192.00	4,715.42	218,642.19	323,265.00
ADMINISTRATIVE	30,290.61				30,290.61	33,160.00	166,215.24	220,464.53
SELLING	1,124.42				1,124.42	-	243,254.50	11,203.81
OTHER (ATTACH LIST)					-		-	-
Employee Benefits	69.33				69.33	-	223,771.23	241,295.65
Utilities	87,845.96				87,845.96	105,657.00	706,198.48	806,621.17
TRANSFERS (TO DIP ACCTS)					-		-	-
Paydown of Revolver	312,738.04				312,738.04	200,000.00	11,498,352.50	13,714,399.19
PROFESSIONAL FEES	61,729.20				61,729.20	171,800.00	582,417.34	1,153,658.44
U.S. TRUSTEE QUARTERLY FEES	325.00				325.00	15,000.00	11,050.00	25,725.00
COURT COSTS					-	-	-	-
<b>TOTAL DISBURSEMENTS</b>	592,267.11				592,267.11	591,212.42	16,179,782.18	19,007,559.59
<b>NET CASH FLOW</b>					0		0	
(RECEIPTS LESS DISBURSEMENTS)	(50,033.73)				(50,033.73)	-	(555,156.00)	-
<b>CASH - END OF MONTH</b>	187,733.65				187,733.65		187,733.65	

\* COMPENSATION TO SOLE PROPRIETORS FOR SERVICES RENDERED TO BANKRUPTCY ESTATE

**THE FOLLOWING SECTION MUST BE COMPLETED**

DISBURSEMENTS FOR CALCULATING U.S. TRUSTEE QUARTERLY FEES: (FROM CURRENT MONTH ACTUAL COLUMN)	
TOTAL DISBURSEMENTS	592,267.11
LESS: TRANSFERS TO DEBTOR IN POSSESSION ACCOUNTS	-
PLUS: ESTATE DISBURSEMENTS MADE BY OUTSIDE SOURCES (i.e. from escrow accounts)	\$
<b>TOTAL DISBURSEMENTS FOR CALCULATING U.S. TRUSTEE QUARTERLY FEES</b>	<b>592,267.11</b>

In re AFY Holding Co / American Fibers and Yarns Company  
Debtor

Case No. 08-12175 / 08-12176  
Reporting Period: 2/1/09 - 2/28/09

	BANK ACCOUNTS				CURRENT MONTH		CUMULATIVE FILING TO DATE	
	OPER.	PAYROLL	TAX	OTHER	ACTUAL	PROJECTED	ACTUAL	PROJECTED
<b>OTHER CASH RECEIPTS</b>								
<b>October 2008</b>								
Misc Employee Receipts, Bank Interest							6,144.33	
<b>November 2008</b>								
Misc Employee Receipts, Bank Interest							3,274.03	
<b>December 2008</b>								
Misc Employee Receipts, Bank Interest							6,156.29	
<b>January 2009</b>								
Sale of Company Vehicle							-	
Sale of Intellectual Property							110,000.00	
Misc Employee Receipts							3,648.71	
Initial Pymt - Sale of Equipment							154,998.06	
Sale Proceeds - Sale of GA Real Estate							1,266,797.01	
Bank Interest Earned							25.66	
<b>February 2009</b>								
Second Pymt - Sale of Equipment	245,000.00				245,000.00		399,998.06	
Misc Employee Receipts	513.84				513.84		4,162.55	
Bank Interest Earned							25.66	
					0		0	0
<b>TOTAL RECEIPTS</b>	<b>245,513.84</b>				<b>245,513.84</b>	<b>0.00</b>	<b>1,955,230.36</b>	<b>0.00</b>





In re AFY Holding Co / American Fibers and Yarns Company  
Debtor

Case No. 08-12175 / 08-12176  
Reporting Period: 2/1/09 - 2/28/09

**STATEMENT OF OPERATIONS**  
(Income Statement)

The Statement of Operations is to be prepared on an accrual basis. The accrual basis of accounting recognizes revenue when it is realized and expenses when they are incurred, regardless of when cash is actually received or paid.

SEE ATTACHED P&L

<b>REVENUES</b>	<b>Month</b>	<b>Cumulative Filing to Date</b>
Gross Revenues	\$	\$
Less: Returns and Allowances		
Net Revenue	\$	\$
<b>COST OF GOODS SOLD</b>		
Beginning Inventory		
Add: Purchases		
Add: Cost of Labor		
Add: Other Costs (attach schedule)		
Less: Ending Inventory		
Cost of Goods Sold		
Gross Profit		
<b>OPERATING EXPENSES</b>		
Advertising		
Auto and Truck Expense		
Bad Debts		
Contributions		
Employee Benefits Programs		
Insider Compensation*		
Insurance		
Management Fees/Bonuses		
Office Expense		
Pension & Profit-Sharing Plans		
Repairs and Maintenance		
Rent and Lease Expense		
Salaries/Commissions/Fees		
Supplies		
Taxes - Payroll		
Taxes - Real Estate		
Taxes - Other		
Travel and Entertainment		
Utilities		
Other (attach schedule)		
Total Operating Expenses Before Depreciation		
Depreciation/Depletion/Amortization		
Net Profit (Loss) Before Other Income & Expenses		
<b>OTHER INCOME AND EXPENSES</b>		
Other Income (attach schedule)		
Interest Expense		
Other Expense (attach schedule)		
Net Profit (Loss) Before Reorganization Items		
<b>REORGANIZATION ITEMS</b>		
Professional Fees		
U. S. Trustee Quarterly Fees		
Interest Earned on Accumulated Cash from Chapter 11 (see continuation sheet)		
Gain (Loss) from Sale of Equipment		
Other Reorganization Expenses (attach schedule)		
Total Reorganization Expenses		
Income Taxes		
Net Profit (Loss)	\$	\$

\*"Insider" is defined in 11 U.S.C. Section 101(31).

**STATEMENT OF OPERATIONS - continuation sheet**

SEE ATTACHED P&L

<b>BREAKDOWN OF "OTHER" CATEGORY</b>	<b>Month</b>	<b>Cumulative Filing to Date</b>
<b>Other Costs</b>		
<b>Other Operational Expenses</b>		
<b>Other Income</b>		
<b>Other Expenses</b>		
<b>Other Reorganization Expenses</b>		

**Reorganization Items - Interest Earned on Accumulated Cash from Chapter 11:**

Interest earned on cash accumulated during the chapter 11 case, which would not have been earned but for the bankruptcy proceeding, should be reported as a reorganization item.

**AFY Holding Company and Subsidiary  
Consolidated February-09 Financial Results  
(in 000's)**

	Month						YTD					
	Feb-09		Plan		Dec-07		2009		Plan		2007	
<b>Sales</b>												
Volume	14		2,110		1,715		122		31,915		25,198	
Gross Revenue	9		4,522		3,707		124		70,467		50,706	
Rebates, Credits, & Return	-		(137)		(214)		-		(1,934)		(1,507)	
Net Revenue	9	0.68	4,385	2.08	3,493	2.04	124	1.02	68,533	2.15	49,200	1.95
<b>Manufacturing</b>												
Volume	-		2,110		1,823		-		31,915		24,790	
		\$/Lb		\$/Lb		\$/Lb		\$/Lb		\$/Lb		\$/Lb
Resin	1		(1,498)	0.71	(1,297)	0.71	(11)		(22,660)	0.71	(15,405)	0.62
Other Raw Materials	(327)		(496)	0.24	(416)	0.23	(365)		(7,440)	0.23	(5,452)	0.22
Plant Wages	(24)		(900)	0.43	(721)	0.40	(52)		(10,500)	0.33	(8,619)	0.35
Materials and Supplies	4		(528)	0.25	(355)	0.19	12		(7,629)	0.24	(5,271)	0.21
Other Variable	(18)		(90)	0.04	(64)	0.04	(41)		(1,356)	0.04	(1,204)	0.05
Total Variable Manufactu	(364)		(3,511)	1.66	(2,853)	1.57	(457)		(49,585)	1.55	(35,951)	1.45
<b>Contribution Margin</b>	(354)		873		640		(333)		18,948		13,249	
<b>Contribution Margin %</b>	-3766.0%		19.9%		18.3%		-267.2%		27.6%		26.9%	
		\$/Lb		\$/Lb		\$/Lb		\$/Lb		\$/Lb		\$/Lb
Mfg Salary/Benefits	(16)		(250)	0.12	(220)	0.12	(35)		(3,000)	0.09	(3,032)	0.12
Utilities	(58)		(350)	0.17	(290)	0.16	(120)		(5,800)	0.18	(4,437)	0.18
Manufacturing Depreciation	-		(254)	0.12	(256)	0.14	-		(3,048)	0.10	(3,066)	0.12
Other Fixed	(21)		(50)	0.02	(28)	0.02	(273)		(600)	0.02	(495)	0.02
Total Fixed Manufacturing	(95)		(904)	0.43	(793)	0.43	(428)		(12,448)	0.39	(11,029)	0.44
Inventory Variation	(178)		(25)		148		(489)		(300)		(329)	
<b>Total Cost of Sales</b>	(637)		(4,440)		(3,498)		(1,374)		(62,333)		(47,308)	
<b>Gross Margin</b>	(628)		(56)		(5)		(1,249)		6,200		1,891	
<b>Gross Margin%</b>	-6673.4%		-1.3%		-0.2%		-1003.7%		9.0%		3.8%	
		%		%		%		%		%		%
<b>SAR/Other</b>		Sales		Sales		Sales		Sales		Sales		Sales
Selling	(2)	19.3%	(155)	3.5%	(82)	2.3%	(5)	4.4%	(1,860)	2.7%	(1,591)	3.2%
Admin	(45)	477.1%	(255)	5.8%	(265)	7.6%	(142)	113.9%	(3,060)	4.5%	(2,825)	5.7%
R&D	-	0.0%	(115)	2.6%	(94)	2.7%	-	0.0%	(1,380)	2.0%	(1,151)	2.3%
Other	243	-2586.6%	(20)	0.5%	(16)	0.5%	(1,686)	1354.4%	(240)	0.4%	353	-0.7%
Total SAR/Other	197	-2090.2%	(545)	12.4%	(456)	13.1%	(1,833)	1472.7%	(6,540)	9.5%	(5,214)	10.6%
<b>Operating Profit</b>	(431)		(601)		(462)		(3,083)		(340)		(3,322)	
Non-Recurring Reorganizat	(63)		-		(2)		(150)		-		(49)	
<b>Operating Income Including</b>	(495)		(601)		(463)		(3,233)		(340)		(3,372)	
Interest Expense	(4)		(68)		(54)		(11)		(768)		(716)	
<b>Operating Profit After Inter</b>	(498)		(669)		(517)		(3,244)		(1,108)		(4,087)	
State Tax	-		-		-		-		-		-	
Federal Tax	-		-		-		-		-		-	
<b>Net Income</b>	(498)		(669)		(517)		(3,244)		(1,108)		(4,087)	
<b>Add:</b>												
Interest	4		68		54		11		768		716	
Taxes	-		-		-		-		-		-	
Depreciation	-		279		278		-		3,348		3,356	
Amortization	-		14		14		-		168		176	
(Gain)/Loss on Sale of Ass	(245)		-		(1)		1,683		-		(561)	
Restructuring/Prior Pd Adj.	63		-		2		150		-		49	
Post Retirement Medical	-		14		14		-		168		165	
<b>EBITDA</b>	(676)		(294)		(156)		(1,400)		3,344		(187)	



**BALANCE SHEET**

The Balance Sheet is to be completed on an accrual basis only. Pre-petition liabilities must be classified separately from postpetition obligations.

SEE ATTACHED BALANCE SHEET

ASSETS	BOOK VALUE AT END OF CURRENT REPORTING MONTH	BOOK VALUE ON PETITION DATE
<b>CURRENT ASSETS</b>		
Unrestricted Cash and Equivalents		
Restricted Cash and Cash Equivalents (see continuation sheet)		
Accounts Receivable (Net)		
Notes Receivable		
Inventories		
Prepaid Expenses		
Professional Retainers		
Other Current Assets (attach schedule)		
<b>TOTAL CURRENT ASSETS</b>	\$	\$
<b>PROPERTY AND EQUIPMENT</b>		
Real Property and Improvements		
Machinery and Equipment		
Furniture, Fixtures and Office Equipment		
Leasehold Improvements		
Vehicles		
Less Accumulated Depreciation		
<b>TOTAL PROPERTY &amp; EQUIPMENT</b>	\$	\$
<b>OTHER ASSETS</b>		
Loans to Insiders*		
Other Assets (attach schedule)		
<b>TOTAL OTHER ASSETS</b>	\$	\$
<b>TOTAL ASSETS</b>	\$	\$

LIABILITIES AND OWNER EQUITY	BOOK VALUE AT END OF CURRENT REPORTING MONTH	BOOK VALUE ON PETITION DATE
<b>LIABILITIES NOT SUBJECT TO COMPROMISE (Postpetition)</b>		
Accounts Payable		
Taxes Payable (refer to FORM MOR-4)		
Wages Payable		
Notes Payable		
Rent / Leases - Building/Equipment		
Secured Debt / Adequate Protection Payments		
Professional Fees		
Amounts Due to Insiders*		
Other Postpetition Liabilities (attach schedule)		
<b>TOTAL POSTPETITION LIABILITIES</b>	\$	\$
<b>LIABILITIES SUBJECT TO COMPROMISE (Pre-Petition)</b>		
Secured Debt		
Priority Debt		
Unsecured Debt		
<b>TOTAL PRE-PETITION LIABILITIES</b>	\$	\$
<b>TOTAL LIABILITIES</b>	\$	\$
<b>OWNER EQUITY</b>		
Capital Stock		
Additional Paid-In Capital		
Partners' Capital Account		
Owner's Equity Account		
Retained Earnings - Pre-Petition		
Retained Earnings - Postpetition		
Adjustments to Owner Equity (attach schedule)		
Postpetition Contributions (Distributions) (Draws) (attach schedule)		
<b>NET OWNER EQUITY</b>	\$	\$
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	\$	\$

\*"Insider" is defined in 11 U.S.C. Section 101(31).

**BALANCE SHEET - continuation sheet**

SEE ATTACHED BALANCE SHEET

<b>ASSETS</b>		<b>BOOK VALUE AT END OF CURRENT REPORTING MONTH</b>	<b>BOOK VALUE ON PETITION DATE</b>
<b>Other Current Assets:</b>			
<b>Other Assets:</b>			
<b>LIABILITIES AND OWNER EQUITY</b>		<b>BOOK VALUE AT END OF CURRENT REPORTING MONTH</b>	<b>BOOK VALUE ON PETITION DATE</b>
<b>Other Postpetition Liabilities:</b>			
<b>Adjustments to Owner Equity:</b>			
<b>Postpetition Contributions (Distributions) (Draws):</b>			

Restricted Cash is cash that is restricted for a specific use and not available to fund operations. Typically, restricted cash is segregated into a separate account, such as an escrow account.

**AFY Holding Company and Subsidiary**  
**Consolidated Balance Sheet --- February 28, 2009**

	<b>28-Feb-09</b>
<b><u>ASSETS</u></b>	
<b>Current Assets</b>	
Cash	194,708
Accounts Receivable	
Trade	1,988,982
Other	177
Inventories, Net	3,920,864
Prepays/Deposits/Deferred Tax Asset/Assets Held For Sale	912,497
Assets Held for Sale	-
<b>Total Current Assets</b>	7,017,229
<b>Property and Equipment, net</b>	25,582,348
<b>Intangible Assets, net</b>	-
<b>Long-term Note Receivable</b>	-
<b>Total Assets</b>	32,599,577
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>	
<b>Current Liabilities</b>	
Accounts Payable	211,541
Accrued Liabilities	93,199
Current Portion of Capital Lease Obligation	-
Revolving Line of Credit	1,200,325
Current Portion of Long-Term Debt	-
<b>Total Current Liabilities</b>	1,505,065
<b>Long Term Debt</b>	-
<b>Capital Lease Obligation, less Current Portion</b>	-
<b>Deferred Tax Liability</b>	-
<b>Accrued Postretirement Benefits</b>	-
<b>Total Liabilities</b>	1,505,065
<b>Stockholders' Equity</b>	
Enterprise Value	36,414,555
Current Year Retained Earnings	(3,243,614)
<b>Total Stockholders' Equity</b>	(2,076,429) 31,094,512
<b>Total Liabilities and Stockholders' Equity</b>	32,599,577

In re AFY Holding Co / American Fibers and Yarns Company  
Debtor

Case No. 08-12175 / 08-12176  
Reporting Period: 2/1/09 - 2/28/09

**STATUS OF POSTPETITION TAXES**

The beginning tax liability should be the ending liability from the prior month or, if this is the first report, the amount should be zero.  
Attach photocopies of IRS Form 6123 or payment receipt to verify payment or deposit of federal payroll taxes.  
Attach photocopies of any tax returns filed during the reporting period.

	Beginning Tax Liability	Amount Withheld or Accrued	Amount Paid	Date Paid	Check No. or EFT	Ending Tax Liability
<b>Federal</b>						
All Fed and State Payroll Taxes	0	22,964.87	22,964.87	2/5, 2/19	ADP Debits	
FICA-Employee	0					
FICA-Employer	0					
Unemployment	0					
Income	0	0	0			
Other:	0					
Total Federal Taxes	0	22,964.87	22,964.87			0
<b>State and Local</b>						
Withholding	0	0	0	0	0	0
Sales	0	0	0	0	0	0
Excise	0	0	0	0	0	0
Unemployment	0	0	0	0	0	0
Real Property	0	0.00	0.00	0	0	0
Personal Property	0	0.00	0.00	0	0	0
Other: Delaware Franchise Tax	0	0.00	0.00		0	0
Total State and Local	0	0	0	0	0	0
<b>Total Taxes</b>	<b>0</b>	<b>0.00</b>	<b>0.00</b>			<b>0</b>

**SUMMARY OF UNPAID POSTPETITION DEBTS**

Attach aged listing of accounts payable.

	Number of Days Past Due					Total
	Current	0-30	31-60	61-90	Over 90	
Accounts Payable	46,793.61	6,649.42				53,443.03
Wages Payable						
Taxes Payable	-					-
Rent/Leases-Building	-					-
Rent/Leases-Equipment	-					-
Secured Debt/Adequate Protection Payments						
Professional Fees	138,433.10					138,433.10
Amounts Due to Insiders*	3,092.92					3,092.92
Other:						
Other:						
<b>Total Postpetition Debts</b>	<b>188,319.63</b>	<b>6,649.42</b>				<b>194,969.05</b>

Explain how and when the Debtor intends to pay any past-due postpetition debts.

\*"Insider" is defined in 11 U.S.C. Section 101(31).



**ACCOUNTS RECEIVABLE RECONCILIATION AND AGING**

<b>Accounts Receivable Reconciliation</b>		<b>Amount</b>
Total Accounts Receivable at the beginning of the reporting period		3,460,449.81
+ Amounts billed during the period		34,573.93
- Amounts collected during the period		-49,704.75
Total Accounts Receivable at the end of the reporting period		3,445,318.99
<b>Accounts Receivable Aging</b>		<b>Amount</b>
0 - 30 days old		0.00
31 - 60 days old		0.00
61 - 90 days old		0.00
91+ days old		3,445,318.99
Total Accounts Receivable		3,445,318.99
Amount considered uncollectible (Bad Debt)		1,456,336.66
Accounts Receivable (Net)		1,988,982.33

**DEBTOR QUESTIONNAIRE**

<b>Must be completed each month</b>	<b>Yes</b>	<b>No</b>
1. Have any assets been sold or transferred outside the normal course of business this reporting period? If yes, provide an explanation below.	YES	
Sold Equipment - Received second installment of proceeds of \$245,000.00 in Feb 09		
2. Have any funds been disbursed from any account other than a debtor in possession account this reporting period? If yes, provide an explanation below.		NO
3. Have all postpetition tax returns been timely filed? If no, provide an explanation below.	YES	
4. Are workers compensation, general liability and other necessary insurance coverages in effect? If no, provide an explanation below.	YES	
5. Has any bank account been opened during the reporting period? If yes, provide documentation identifying the opened account(s). If an investment account has been opened provide the required documentation pursuant to the Delaware Local Rule 4001-3.		NO