

UNIFI INC  
Form 10-K  
September 12, 2008

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

Form 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 29, 2008

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-10542

Unifi, Inc.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of  
incorporation or organization)

P.O. Box 19109 7201 West Friendly Avenue  
Greensboro, NC

(Address of principal executive offices)

11-2165495

(I.R.S. Employer  
Identification No.)

27419-9109

(Zip Code)

Registrant's telephone number, including area code:

(336) 294-4410

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock

Name of Each Exchange on Which Registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)			

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

As of December 21, 2007, the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant was \$108,452,204. The Registrant has no non-voting stock.

As of September 5, 2008, the number of shares of the Registrant's common stock outstanding was 61,557,600.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement to be filed with the Securities and Exchange Commission (the SEC) in connection with the solicitation of proxies for the Annual Meeting of Shareholders of Unifi, Inc., to be held on October 29, 2008, are incorporated by reference into Part III. (With the exception of those portions which are specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed or incorporated by reference as part of this report.)

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**UNIFI, INC.  
ANNUAL REPORT ON FORM 10-K**

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**PART I**

**Item 1. *Business***

Unifi, Inc., a New York corporation formed in 1969 (together with its subsidiaries the Company or Unifi), is primarily a diversified North American producer and processor of multi-filament polyester and nylon yarns, including specialty and premier value-added (PVA) yarns with enhanced performance characteristics. The Company manufactures partially oriented, textured, dyed, twisted and beamed polyester yarns as well as textured nylon and nylon covered spandex products. The Company sells its products to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, hosiery, furnishings, automotive, industrial and other end-use markets. The Company maintains one of the industry's most comprehensive product offerings and emphasizes quality, style and performance in all of its products. The Company's net sales and net loss for fiscal year 2008 were \$713.3 million and \$16.2 million, respectively.

The Company uses advanced production processes to manufacture its high-quality yarns cost-effectively. The Company believes that its flexibility and experience in producing specialty yarns provides important development and commercialization advantages. A significant number of customers, particularly in the apparel market, produce finished goods that they seek to make eligible for duty-free treatment in the regions covered by the North American Free Trade Agreement (NAFTA), the United States (U.S.) - Dominican Republic - Central American Free Trade Agreement (CAFTA), the Caribbean Basin Trade Partnership Act (CBI) and the Andean Trade Preferences Act (ATPA) (collectively, the regional free-trade markets). When U.S.-origin partially oriented yarn (POY) is used to produce finished goods in these regional free-trade markets, and other origin criteria are met, then the finished goods are eligible for duty-free treatment. The Company has state-of-the-art manufacturing operations in North and South America and participates in joint ventures in the People's Republic of China (China), Israel and the U.S.

The Company also works across the supply chain to develop and commercialize specialty yarns that provide performance, comfort, aesthetic and other advantages that enhance demand for its products. The Company has branded the premium portion of its specialty value-added yarns in order to distinguish its products in the marketplace. The Company currently has approximately 20 PVA yarns in its portfolio, commercialized under several brand names, including Sorbtek®, A.M.Y.®, Mynx® UV, Reflexx®, MicroVista®, aio® and Repreve®.

***Recent Developments***

During the last fiscal year, the Company faced an extremely difficult operating environment, driven by a faltering economy, and unprecedented increases in the cost of raw materials, energy, and freight. However, the Company has reacted decisively in dealing with these conditions. A combination of sales price increases, cost containment, operational efficiencies, and customer service, coupled with an aggressive raw material sourcing strategy, has enabled the Company to successfully operate in this environment.

The Company's business has been negatively impacted by rising raw materials and other petrochemical driven costs. The impact of the surge in crude oil prices since the beginning of fiscal year 2008 has created a spike in polyester and nylon raw material prices. Polyester polymer costs during June 2008 were 17% higher as compared to the same period last year. Nylon polymer costs during June 2008 were 12% higher as compared to the same period last year.

While global imports of synthetic apparel are down 2.5% for the first five months of calendar year 2008, imports from the CAFTA region are up 12% during the same period as U.S. brands and retailers continue to take advantage of the shorter lead times and the competitiveness of the region. The improvement trend in regional production is expected to

continue and is significant because over half of the U.S. production goes into programs that require regional fiber in order for the garment to qualify for duty free treatment.

In China, the Company began exploring strategic options with its joint venture partner, Sinopec Yizheng Chemical Fiber Co., Ltd ( YCFC ) with the ultimate goal of determining if there was a viable path of profitability for Yihua Unifi Fibre Industry Company Limited ( YUFI ). The Company concluded that although YUFI has successfully grown its position in high value and PVA products in China, commodity sales will continue to be a

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large but unprofitable portion of YUFI's business. In addition, the Company concluded that YUFI has been focusing too much attention on non-value adding issues, distracting it from the Company's primary PVA product objectives. Based on these conclusions, the Company decided to exit the joint venture and proposed to sell its 50% interest in YUFI to its partner, YCFC. The Company expects to close the transaction in the second quarter of fiscal year 2009, pending negotiation and execution of definitive agreements and Chinese regulatory approvals for an estimated price of \$10.0 million. However, there can be no assurances that this transaction will occur in this timetable or upon these terms.

The Company believes that a fundamental change in its approach is required to maximize the Company's earnings and growth opportunities in the Chinese market. Accordingly, the Company plans to form Unifi Textiles (Suzhou) Company, Ltd. ( UTSC ). The focus of the new company will be to develop, source, sell, and service PVA products in the Asia region. UTSC will benefit the Company by removing the challenges facing YUFI and its commodity production, allowing the Company to provide greater flexibility, faster product innovation, and enhanced service to customers in the growing high value segments. Under the new business model in China the Company will continue to market innovative, high value, and PVA products, while ensuring high quality production of these products by its suppliers. The Company will work with customers to grow in applications designed to meet ever changing consumer demands. Initially, the Company's partner, YCFC, will likely serve as the primary toll manufacturer of PVA yarns and the Company expects a seamless transition for its Asian customers. The new company may add other toll manufacturers as appropriate and will attempt to quickly grow the portfolio of PVA yarns available. During fiscal year 2009, the Company plans to invest between approximately \$3.0 million to \$5.0 million towards the initial start-up and working capital requirements of UTSC.

On October 26, 2007, the Company entered into a contract to sell its investment in Unifi-SANS Technical Fibers, LLC ( USTF ) and the related manufacturing facility. On November 30, 2007, the Company completed the sale of USTF and received net proceeds of \$11.9 million from SANS Fibers. The Company also sold several of its facilities during fiscal year 2008 that were held for sale at the end of fiscal year 2007. In addition, the Company ceased manufacturing at its Kinston, North Carolina facility ( Kinston ) and announced it would be closing the Staunton, Virginia facility in early fiscal year 2009.

On June 17, 2008, the Company announced that it entered into an asset purchase agreement with Reliance Industries USA, Inc. ( Reliance ) which provides for the sale of all remaining assets and structures located at the Kinston polyester manufacturing facility in Kinston, North Carolina, subject to certain closing conditions (the Sale ). On August 27, 2008, the Company was informed that Reliance was terminating the agreement and would not be proceeding with the Sale. The Company retains certain rights to sell these assets for a period of two years from March 20, 2008. If these assets are not sold in this two year period, the Company is contractually required to transfer ownership of these assets to E.I. DuPont de Nemours ( DuPont ) for no value.

On August 1, 2007, the Company announced that the Board of Directors ( Board ) terminated Mr. Brian Parke as the Chairman, President and Chief Executive Officer ( CEO ) of the Company. The Company also announced that the Board appointed Mr. Stephen Wener as the Company's new Chairman and acting CEO. In addition, there were several changes to its Board of Directors, including six directors' resignations, including Mr. Parke, and the appointment of two new directors, Mr. G. Alfred Webster and Mr. George R. Perkins, Jr. On September 26, 2007, the Company announced that the Board elected Mr. William L. Jasper as the Company's President and CEO. In addition, Mr. R. Roger Berrier was elected Executive Vice President of Sales, Marketing, and Asian Operations. Mr. Berrier assumed responsibility for all marketing, sales, and customer service functions as well as the Company's joint venture in China. On October 4, 2007, the Company announced that Mr. Ronald L. Smith was elected as its Chief Financial Officer ( CFO ) replacing Mr. William M. Lowe, Jr. whose employment terminated with the Company on October 1, 2007. Mr. Archibald Cox, Jr. was appointed to the Company's Board in February 2008.



***Industry Overview***

The textile and apparel industry consists of natural and synthetic fibers used for apparel and non-apparel applications. The industry is characterized by dependence upon a wide variety of end-markets which primarily include apparel, furnishings, industrial and consumer products, floor coverings, fiber fill and tires. The apparel and

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hosiery markets account for 23% of total production, the floor covering market accounts for 34%, the industrial and consumer markets account for 33%, and the furnishings market accounts for the remaining 10%.

According to the National Council of Textile Organizations, the U.S. textile market's total shipments were \$68.5 billion for the twelve month period ended November 2007. During 1994 to 2004, capital expenditures in the U.S. textile industry totaled \$33 billion and the industry invested more than \$9 billion in new plants and equipment during the 2001 to 2006 period alone, making it one of the most modern and productive textile sectors in the world. The fiber, textile and apparel industry is one of the largest manufacturing employers in the U.S. with approximately 860,000 employees as of the end of calendar year 2006. The U.S. textile industry is one of the top five textile exporters in the world with \$15.9 billion in export sales for calendar year 2007.

Textiles and apparel goods are made from natural fiber, such as cotton and wool, or synthetic fiber, such as polyester and nylon. Since 1980, global demand for polyester has grown steadily, and in calendar year 2003, polyester replaced cotton as the fiber with the largest percentage of sales worldwide. In calendar year 2007, global polyester accounted for an estimated 42% of global fiber consumption and demand is projected to increase by approximately 5% annually through 2010. In the U.S., the polyester and nylon fiber sector together accounted for approximately 57% of the textile consumption during calendar year 2007.

The synthetic filament industry includes petrochemical and raw material producers; fiber and yarn manufacturers (like the Company), fabric and product producers; consumer brands and retailers. Among synthetic filament yarn producers, pricing is highly competitive with innovation, product quality and customer service being essential for differentiating the competitors within the industry. Both product innovation and product quality are particularly important, as product innovation gives customers competitive advantages and product quality provides for improved manufacturing efficiencies.

Although the global textile and apparel industry continues to grow, the U.S. textile and apparel industry has contracted substantially since 1999, caused primarily by intense foreign competition in finished products which has resulted in over capacity domestically and the closure of many domestic textile and apparel plants or the movement of their operations offshore. According to industry experts, the North American polyester textile filament market is estimated to have declined by approximately 5% in calendar year 2007 compared to an estimated decline of approximately 16% in calendar year 2006. Regional manufacturers continue to demand North American manufactured yarn and fabrics due to the duty-free advantage, quick response times, readily available production capacity, and specialized products. In addition, North American retailers have expressed the need to have a balanced procurement strategy with both global and regional producers. Industry experts originally projected a decline for calendar year 2008 at a rate of 4% to 5%, similar to calendar year 2007, however, experts now believe the rate of polyester industry contraction in North America during calendar year 2008 will be 8% to 10%. Unlike prior contractions in the North American production which were primarily due to import competition of finished goods, the contraction in calendar year 2008 is driven by decreased demand at the retail level. The U.S. economic slowdown is expected to impact consumer spending and retail sales of the Company's key segments like apparel, furnishings, and automotive.

In the Americas, regional free-trade agreements, such as NAFTA and CAFTA, and U.S. unilateral duty preference programs, such as ATPA and CBI, have a significant impact on the flow of goods among the region and the relative costs of production. The cost advantages offered by these regional free-trade agreements and duties preference programs on finished goods which incorporate U.S.-origin synthetic fiber and the desire for quick inventory turns have enabled regional synthetic yarn producers to effectively compete with imported finished goods from lower wage-based countries. The Company estimates that the duty-free benefit of processing synthetic textiles and apparel finished goods under the terms of these regional free-trade agreements and duty preference programs typically represents an advantage of 28% to 32% of the finished product's wholesale cost. As a result of these cost advantages, it is expected that these regions, especially CAFTA, will continue to increase their supply of textiles to the U.S. markets.



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***Products***

The Company manufactures polyester POY and polyester and nylon yarns for a wide range of end-uses. The Company processes and sells POY, as well as high-volume commodity, specialty and PVA yarns, domestically and internationally.

Polyester POY is used to make polyester yarn. Polyester yarn products include textured, dyed, twisted and beamed yarns. The Company sells its polyester yarns to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, automotive upholstery, home furnishings, industrial, military, medical and other applications. Nylon products include textured nylon and covered spandex products, which the Company sells to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, hosiery, sock and other applications.

In addition to producing high-volume commodity yarns, the Company develops, manufactures and commercializes specialty yarns that provide performance, comfort, aesthetic and other advantages to fabrics and garments. The Company continues to expand Repreve®, a family of 100% recycled yarns, with the introduction of Repreve® nylon, further supporting the continued consumer demand for eco-responsible products. The Company's branded portion of its yarn portfolio continues to grow and provide product differentiation to brands, retailers and consumers. These branded yarn products include:

Repreve®, an eco-friendly yarn made from 100% recycled materials. Repreve® has been the Company's most successful branded product in fiscal year 2008. Repreve can be found in well-known brands and retailers including Patagonia, REI, LL Bean, AllSteel, Hon, Perry Ellis, Sears, Macy's and Kohl's.

aio®, all-in-one performance yarns, which combine multiple performance properties into a single yarn. aio® has been very successful with brands, such as Reebok and retailers including Costco, under the Kirkland and Champion brands and Target's C9 brand.

Sorbtek®, a permanent moisture management yarn primarily used in performance base layer applications, compression apparel, athletic bras, sports apparel, socks and other non-apparel related items. Sorbtek® can be found in many well-known apparel brands and retailers, including Reebok, and under the Athletic Works brand at Wal-Mart.

A.M.Y.®, a yarn with permanent antimicrobial properties for odor control. A.M.Y.® is being used by Reebok's NFL Equipment line, the U.S. military, Champion and C9.

Mynx® UV, an ultraviolet protective yarn. Mynx® UV can be found in Asics Running Apparel and Terry Cycling.

Reflexx®, a family of stretch yarns that can be found in a wide array of end-use applications from home furnishings to performance wear and from hosiery and socks to workwear and denim. Reflexx® can be found in many brands, including VF Corporation's Wrangler and Lee and Majestic Athletic (a maker of uniforms for several major league baseball teams, including the New York Yankees).

The Company's net sales of polyester and nylon accounted for 74% and 26% of total net sales, respectively, for fiscal year 2008.

***Sales and Marketing***

The Company employs a sales force of approximately 30 persons operating out of sales offices in the U.S., Brazil, and Colombia. The Company relies on independent sales agents for sales in several other countries. The Company seeks to create strong customer relationships and continually seeks ways to build and strengthen those relationships throughout the supply chain. Through frequent communications with customers, partnering with customers in product development and engaging key downstream brands and retailers, the Company has created significant pull-through sales and brand recognition for its products. For example, the Company works with brands and retailers to educate and create demand for its value-added products. The Company then works with key fabric mill partners to develop specific fabric for those brands and retailers utilizing its PVA products. Based on the results of many commercial and branded programs, this strategy has proven to be successful for the Company.

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### ***Customers***

The Company sells its polyester yarns to approximately 900 customers and its nylon yarns to approximately 200 customers in a variety of geographic markets. In fiscal year 2008, the Company had sales to Hanesbrands, Inc. of \$77.3 million which were approximately 11% of its consolidated revenues. The Company's sales to Hanesbrands, Inc. were primarily related to its nylon segment. The sales to Hanesbrands, Inc. were pursuant to a supply agreement that expires in April 2009. The Company is in the process of renegotiating a new agreement, however the Company cannot provide any assurance that this relationship will continue following the expiration of the current agreement. The loss of this customer could have a material adverse effect on the Company's business.

Products are generally sold on an order-by-order basis for both the polyester and nylon segments, including PVA yarns with enhanced performance characteristics. For substantially all customer orders, including those involving more customized yarns, the manufacture and shipment of yarn is in accordance with firm orders received from customers specifying yarn type and delivery dates.

Customer payment terms are generally consistent for both the polyester and nylon reporting segments and are usually based on prevailing industry practices for the sale of yarn domestically or internationally. In certain cases, payment terms are subject to further negotiation between the Company and individual customers based on specific circumstances impacting the customer and may include the extension of payment terms or negotiation of situation specific payment plans. The Company does not believe that any such deviations from normal payment terms are significant to either of its reporting segments or the Company taken as a whole. See Item 1A Risk Factors The Company's business could be negatively impacted by the financial condition of its customers for more information.

### ***Manufacturing***

Polyester POY is made from petroleum-based chemicals such as terephthalic acid ( TPA ) and monoethylene glycol ( MEG ). The production of polyester POY consists of two primary processes, polymerization and spinning. The polymerization process is the production of polymer by a chemical reaction involving the combination of TPA and MEG. The spinning process involves an extrusion of molten polymer, directly from polymerization or using polyester polymer beads ( Chip ) into polyester POY. The molten polymer is extruded through spinnerettes to form continuous multi-filament raw yarn. The Company closed its POY polymerization and spinning facility in Kinston, North Carolina and is now purchasing much of its commodity POY from external suppliers. The Company also purchases Chip to spin in its Yadkinville, North Carolina facility where it produces polyester POY mostly for its specialty and PVA yarns.

The Company's polyester and nylon yarns can be sold externally or further processed internally. Additional processing of polyester products includes texturing, package dyeing, twisting and beaming. The texturing process, which is common to both polyester and nylon, involves the use of high-speed machines to draw, heat and false-twist the POY to produce yarn having various physical characteristics, depending on its ultimate end-use. Texturing of POY, which can be either natural or solution-dyed raw polyester or natural nylon filament fiber, gives the yarn greater bulk, strength, stretch, consistent dye-ability and a softer feel, thereby making it suitable for use in knitting and weaving of fabric.

Package dyeing allows for matching of customer specific color requirements for yarns sold into the automotive, home furnishings and apparel markets. Twisting incorporates real twist into the filament yarns which can be sold for such uses as sewing thread, home furnishings and apparel. Beaming places both textured and covered yarns on to beams to be used by customers in warp knitting and weaving applications.

Additional processing of nylon products primarily includes covering which involves the wrapping or air entangling of filament or spun yarn around a core yarn. This process enhances a fabric's ability to stretch, recover its original shape and resist wrinkles while maintaining a softer feel.

The Company works closely with its customers to develop yarns using a research and development staff that evaluates trends and uses the latest technology to create innovative, PVA yarns reflecting current consumer preferences.

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### ***Suppliers***

The primary raw material suppliers for the polyester segment are Nanya Plastics Corp. of America ( Nanya ) for Chip and POY and Reliance Industries for POY. The primary suppliers of nylon POY to the nylon segment are U.N.F. Industries Ltd. ( UNF ), HN Fibers, Ltd., Invista S.a.r.l. ( INVISTA ), Nylstar and Universal Premier Fibers, LLC. UNF is a 50/50 joint venture with Nilit Ltd. ( Nilit ), located in Israel. The joint venture produces nylon POY at Nilit's manufacturing facility in Migdal Ha Emek, Israel. The nylon POY production is being utilized in the domestic nylon texturing operations. Although the Company does not generally expect having any significant difficulty in obtaining raw nylon POY, raw polyester POY, Chip and other raw materials used to manufacture polyester POY, the Company has in the past and may in the future experience interruptions or limitations in supply which could materially and adversely affect its operations. See Item 1A Risk Factors The Company depends upon limited sources for raw materials, and interruptions in supply could increase its costs of production and cause its operations to suffer for a further discussion.

### ***Joint Ventures and Other Equity Investments***

The Company participates in joint ventures in China, Israel and the U.S. See Management's Discussion and Analysis of Financial Condition and Results of Operation Joint Ventures and Other Equity Investments for a more detailed description of its joint ventures.

### ***Competition***

The industry in which the Company currently operates is global and highly competitive. The Company processes and sells both high-volume commodity products and more specialized yarns both domestically and internationally into many end-use markets, including the apparel, automotive upholstery and furnishing markets. The Company competes with a number of other foreign and domestic producers of polyester and nylon yarns as well as with importers of textile and apparel products.

The polyester segment's major regional competitors are AKRA, S.A. de C.V., O Mara, Inc., Nanya, and Spectrum Yarns, Inc. The nylon segments major regional competitors are Sapona Manufacturing Company, Inc., McMichael Mills, Inc. and Worldtex, Inc.

The Company also competes against a number of foreign competitors that not only sell polyester and nylon yarns in the U.S. but also import foreign sourced fabric and apparel into the U.S. and other countries in which it does business, which adversely impacts the sale of its polyester and nylon yarns.

The Company's foreign competitors include yarn manufacturers located in the regional free-trade markets who also benefit from the NAFTA, CAFTA, CBI and ATPA trade agreements which provide for duty-free treatment of most apparel and textiles between the signatory (and qualifying) countries. The cost advantages offered by these trade agreements and the desire for quick inventory turns have enabled producers from these regions, including commodity yarn users, to effectively compete. As a result of such cost advantages, the Company expects that the CAFTA and ATPA regions will continue to grow in their supply to the U.S. The Company is the largest of only a few significant producers of eligible yarn under these trade agreements. As a result, one of the Company's business strategies is to leverage its eligibility status to increase its share of business with regional fabric producers and domestic producers who ship their products into the region for further processing.



On a global basis, the Company competes not only as a yarn producer but also as part of a supply chain. As one of the many participants in the textile industry supply chain, its business and competitive position are directly impacted by the business, financial condition and competitive position of several other participants in the supply chain in which it operates.

In the apparel market, a significant source of overseas competition comes from textile and apparel manufacturers that operate in lower labor and lower raw materials cost countries such as China. The primary competitive factors in the textile industry include price, quality, product styling and differentiation, flexibility of production and finishing, delivery time and customer service. The needs of particular customers and the characteristics of particular products determine the relative importance of these various factors. Several of the Company's foreign competitors have significant competitive advantages, including lower wages, raw materials and energy costs, capital costs, and

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favorable currency exchange rates against the U.S. dollar which could make the Company's products less competitive and may cause its sales and operating results to decline. In addition, while traditionally these foreign competitors have focused on commodity production, they are now increasingly focused on specialty and value-added products where the Company generates higher margins. In recent years, international imports of fabric and finished goods in the U.S. have significantly increased, resulting in a significant reduction in the Company's customer base. The primary drivers for that growth are lower over-seas operating costs, increased overseas sourcing by U.S. retailers, the entry of China into the free-trade markets and the staged elimination of all textile and apparel quotas. In May 2005, the U.S. government imposed safeguard quotas on various categories of Chinese-made products, citing market disruption. Following extensive negotiations, the U.S. and China entered into a bilateral agreement in November 2005 resulting in the imposition of quotas on a number of categories of Chinese textile and apparel products until December 31, 2008. The Company expects global competition to intensify as a result of the gradual elimination of such trade protections.

The U.S. automotive upholstery market has been less susceptible to import penetration because of the exacting specifications and quality requirements often imposed on manufacturers of automotive upholstery and the just-in-time delivery requirements. Effective customer service and prompt response to customer feedback are logistically more difficult for an importer to provide. Nevertheless, the U.S. automotive industry faces a decline of approximately 9% to 10% in production projected for calendar year 2008. The yarn volumes in the automotive industry are also negatively impacted by a shift to fabrics utilizing lower denier yarns and competition from piece dyed products.

The nylon hosiery market has been experiencing a decline in recent years due to movement in consumer preferences toward casual clothing, but is now expected to decline at a much lower rate as compared to previous years. The emergence of shape-wear, the expansion of CAFTA, and projected growth of the Company's leading domestic hosiery producer has provided growth for the Company in this segment during fiscal year 2008.

General economic conditions, such as raw material prices, interest rates, currency exchange rates and inflation rates that exist in different countries have a significant impact on competitiveness, as do various country-to-country trade agreements and restrictions.

The Company believes that the continuing development and marketing of new and improved products, the growing need for quick response, speed to market, quick inventory turns and cost of capital will continue to require a sizable portion of the textile industry to remain based in the North and Central America regions. The Company's success will continue to be primarily based on its ability to improve the mix of product offerings towards PVA yarns, to implement cost saving strategies and to effectively pass along raw material price changes, in order to improve its financial results and strategically penetrate growth markets, such as China.

See Item 1A Risk Factors The Company faces intense competition from a number of domestic and foreign yarn producers and importers of textile and apparel products for a further discussion.

### ***Backlog and Seasonality***

The Company generally sells products on an order-by-order basis for both the polyester and nylon reporting segments, even for PVA yarns. Changes in economic indicators and consumer confidence levels can have a significant impact on retail sales. Deviations between expected sales and actual consumer demand result in significant adjustments to desired inventory levels and, in turn, replenishment orders placed with suppliers. This changing demand ultimately works its way through the supply chain and impacts the Company. As a result, the Company does not track unfilled orders for purposes of determining backlog but will routinely reconfirm or update the status of potential orders. Consequently, backlog is generally not applicable to the Company, and it does not consider its products to be seasonal.

***Intellectual Property***

The Company has a limited number of patents and approximately 26 U.S. registered trademarks none of which are material to any of the Company's reporting segments or its business taken as a whole. The Company licenses certain trademarks, including Dacron® and Softec™ from INVISTA.

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***Employees***

The Company employs approximately 2,800 employees of whom approximately 2,770 are full-time and approximately 30 are part-time employees. Approximately 1,980 employees are employed in the polyester segment, approximately 700 employees are employed in the nylon segment and approximately 120 employees are employed in its corporate office. While employees of the Company's foreign operations are generally unionized, none of the domestic employees are currently covered by collective bargaining agreements. The Company believes that its relations with its employees are good.

***Trade Regulation***

Increases in global capacity and imports of foreign-made textile and apparel products are a significant source of competition for the Company's supply chain. Although imported apparel represents a significant portion of the U.S. apparel market, recent regional trade agreements containing yarn forward rules of origin have provided opportunities to participate in the growing import market with apparel products manufactured outside the U.S. Although imports of certain finished textile products from Asia have declined thus far in 2008, imports from Asia have gained significant share over the last several years as a result of lower wages, lower raw material and capital costs, unfair trade practices, and favorable currency exchange rates against the U.S. dollar.

The extent of import protection afforded by the U.S. government to domestic textile producers has been subject to considerable domestic political deliberation and foreign considerations. In January 1995, a multilateral trade organization, the World Trade Organization ( WTO ), was formed by the members of the General Agreement on Tariffs and Trade ( GATT ), to replace GATT. At that time the WTO established a mechanism by which world trade in textiles and clothing would be progressively liberalized through the elimination of quotas and the reduction of duties. The implementation began in January 1995 with the phasing-out of quotas and the gradual reduction of duties to take place over a 10-year period. As of January 1, 2005, the remaining quotas, (representing approximately one-half of the textile and apparel imports) were removed. During calendar year 2005, textile and apparel imports from China surged, primarily gaining share from other Asian importing countries. To that end, the U.S. government imposed safeguard quotas on various categories of Chinese-made products, citing market disruption. Following extensive negotiations, the U.S. and China entered into a bilateral agreement in November 2005 resulting in the imposition of annually increasing quotas on a number of categories of Chinese textile and apparel products that will remain in effect until December 31, 2008. In anticipation of the lifting of these quotas, the industry is exploring all current trade remedy laws that will address unfair trade practices that China has failed to eliminate under its WTO commitment.

Although quotas on textiles and apparel imports will be eliminated after 2008, tariffs on imported products remain in effect. A seven-year effort under the WTO Doha Round to establish further tariff liberalization collapsed in August 2008.

NAFTA is a free trade agreement between the United States, Canada and Mexico that became effective on January 1, 1994 and has created the world's largest free-trade region. The agreement contains safeguards sought by the U.S. textile industry, including certain rules of origin for textile and apparel products that must be met for these products to receive benefits under NAFTA. In general, textile and apparel products must be produced from yarns and fabrics made in the NAFTA region, and all subsequent processing must occur in the NAFTA region to receive duty-free treatment. Based on experience to date, NAFTA has had a favorable impact on the Company's business.

In 2000, the U.S. passed the CBI, amended by the Trade Act of 2002, which allows apparel products manufactured in the Caribbean region using yarns or fabric produced in the U.S. to be imported into the U.S. duty and quota free. Also

in 2000, the U.S. passed the African Growth and Opportunity Act ( AGOA ), which was amended by the Trade Act of 2002, which allows apparel products manufactured in the sub-Saharan African region using yarns and fabrics produced in the U.S. to be imported to the U.S. duty and quota free.

On August 2, 2005, the U.S. passed CAFTA, which is a free trade agreement between seven signatory countries: the U.S., the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Qualifying textile and apparel products that are produced in any of the seven signatory countries from fabric, yarn or fibers that are also produced in any of the seven signatory countries may be imported into the U.S. duty-free. At this

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time, Costa Rica is the only CAFTA country that has not yet ratified the agreement and come under its provisions. Provisions requiring US-CAFTA pocketing yarn and fabric and cumulation with Canada and Mexico were implemented on August 15, 2008.

The Andean Trade Promotion and Drug Eradication Act ( ATPDEA ) passed on August 6, 2002, effectively granting participating Andean countries the favorable trade terms similar to those of the other regional free trade agreements. Under the enhanced ATPDEA, apparel manufactured in Bolivia, Colombia, Ecuador and Peru using yarns and fabric produced in the U.S., or in these four Andean countries, could be imported into the U.S. duty and quota free through December 31, 2006. A temporary extension for the ATPDEA was granted to coincide with the ongoing free trade agreement negotiations with several of these Andean nations. Awaiting congressional action are free trade agreements with Peru and Colombia which follow, for the most part, the same yarn forward rules of origin as the ATPDEA, as well as free trade agreements with Panama and South Korea. These agreements contain basic yarn forward rules of origin for textile and apparel products similar to the NAFTA.

The 2008 Farm Bill, drafted on a ten year baseline, includes economic adjustment assistance provisions which provide textile mills a subsidy of four cents a pound on the cost of the domestic and imported cotton that it uses for the first four years and three cents a pound for the last six years. This program went into effect August 1, 2008; however, final interpretation and regulations, including reinvestment requirements, have not been completed at this time. Parkdale America, LLC ( PAL ), the Company's joint venture with Parkdale Mills, Inc., will begin to accrue benefits based on its consumption of cotton starting on August 1, 2008.

## ***Environmental Matters***

The Company is subject to various federal, state and local environmental laws and regulations limiting the use, storage, handling, release, discharge and disposal of a variety of hazardous substances and wastes used in or resulting from its operations and potential remediation obligations thereunder, particularly the Federal Water Pollution Control Act, the Clean Air Act, the Resource Conservation and Recovery Act (including provisions relating to underground storage tanks) and the Comprehensive Environmental Response, Compensation, and Liability Act, commonly referred to as Superfund or CERCLA and various state counterparts. The Company has obtained, and is in compliance in all material respects with, all significant permits required to be issued by federal, state or local law in connection with the operation of its business as described in this Annual Report on Form 10-K.

The Company's operations are also governed by laws and regulations relating to workplace safety and worker health, principally the Occupational Safety and Health Act and regulations there under which, among other things, establish exposure standards regarding hazardous materials and noise standards, and regulate the use of hazardous chemicals in the workplace.

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

On September 30, 2004, the Company completed its acquisition of the polyester filament manufacturing assets located at Kinston from INVISTA S.a.r.l. The land for the Kinston site was leased pursuant to a 99 year ground lease ( Ground Lease ) with DuPont. Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the United States Environmental Protection Agency ( EPA ) and the North Carolina Department of Environment and Natural Resources ( DENR ) pursuant to the Resource Conservation and Recovery Act Corrective

Action program. The Corrective Action program requires DuPont to identify all potential areas of environmental concern ( AOCs ), assess the extent of contamination at the identified AOCs and clean them up to comply with applicable regulatory standards. Under the terms of the Ground Lease, upon completion by DuPont of required remedial action, ownership of the Kinston site was to pass to the Company and after seven years of sliding scale shared responsibility with Dupont,the Company would have had sole responsibility for future remediation requirements, if any. Effective March 20, 2008, the Company entered into a Lease Termination Agreement

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associated with conveyance of certain of the assets at Kinston to DuPont. This agreement terminated the Ground Lease and relieved the Company of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to the Company's period of operation of the Kinston site. However, the Company continues to own a satellite service facility acquired in the INVISTA transaction that has contamination from DuPont's operations and is monitored by DENR. This site has been remediated by DuPont and DuPont has received authority from DENR to discontinue remediation, other than natural attenuation. DuPont's duty to monitor and report to DENR will be transferred to the Company in the future, at which time DuPont must pay the Company seven years of monitoring and reporting costs and the Company will assume responsibility for any future remediation and monitoring of this site. At this time, the Company has no basis to determine if and when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same.

***Revenues and Long-Lived Assets By Geographic Area***

	<b>Fiscal Years Ended</b>		
	<b>June 29, 2008</b>	<b>June 24, 2007</b>	<b>June 25, 2006</b>
United States			
Net sales	\$ 581,400	\$ 574,857	\$ 633,354
Long-lived assets, net(1)	156,230	197,682	236,253
Brazil			
Net sales	\$ 128,531	\$ 110,191	\$ 98,887
Long-lived assets, net	25,082	20,052	18,676
Other foreign			
Net sales	\$ 3,415	\$ 5,260	\$ 6,424
Long-lived assets, net	111	101	186

(1) Includes assets held for held

***Available Information***

The Company's Internet address is: [www.unifi.com](http://www.unifi.com). Copies of the Company's reports, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, that the Company files with or furnishes to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and beneficial ownership reports on Forms 3, 4, and 5, are available as soon as practicable after such material is electronically filed with or furnished to the SEC and maybe obtained without charge by accessing the Company's web site or by writing Mr. Ronald L. Smith at Unifi, Inc. P.O. Box 19109, Greensboro, North Carolina 27419-9109.

***Item 1A. Risk Factors***

***The significant price volatility of many of the Company's raw materials and rising energy costs may result in increased production costs, which the Company may not be able to pass on to its customers, which could have a material adverse effect on its business, financial condition, results of operations or cash flows.***

A significant portion of the Company's raw materials energy costs are 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 geo-political risks. While the Company frequently enters into raw material supply agreements, as



is the general practice in its industry, these agreements typically provide for formula-based pricing. Therefore, its supply agreements provide only limited protection against price volatility. While the Company has in the past matched cost increases with corresponding product price increases, the Company was not always able to immediately raise product prices, and, ultimately, pass on underlying cost increases to its customers. The Company has in the past lost and expects that it will continue to lose, customers to its competitors as a result of any price increases. In addition, its competitors may be able to obtain raw materials at a lower cost due to market regulations. Additional raw material and energy cost increases that the Company is not able to fully pass on to customers or the loss of a large number of customers to competitors as a result of price increases could have a material adverse effect on its business, financial condition, results of operations or cash flows.

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***The Company depends upon limited sources for raw materials, and interruptions in supply could increase its costs of production and cause its operations to suffer.***

The Company depends on a limited number of third parties for certain raw material supplies, such as POY and Chip. Although alternative sources of raw materials exist, the Company may not continue to be able to obtain adequate supplies of such materials on acceptable terms, or at all, from other sources. With its recent closure of its Kinston facility, sources of POY from NAFTA and CAFTA qualified suppliers may in the future experience interruptions or limitations in the supply of its raw materials, which would increase its product costs and could have a material adverse effect on its business, financial condition, results of operations or cash flows. These POY suppliers are also at risk with their raw material supply chain. For example, in the Louisiana area in 2005, Hurricane Katrina created shortages in the supply of paraxlyene, a feedstock used in polymer production. As a result, supplies of paraxlyene were reduced, and prices increased. With Hurricane Rita the supply of MEG was reduced, and prices increased as well. Any disruption or curtailment in the supply of any of its raw materials could cause the Company to reduce or cease its production in general or require the Company to increase its pricing, which could have a material adverse effect on its business, financial condition, and results of operations or cash flows.

***The Company is currently implementing various strategic business initiatives, and the success of the Company's business will depend on its ability to effectively develop and implement these initiatives.***

The Company is currently implementing various strategic business initiatives. Further, as discussed herein, the Company is changing its strategy in China. In connection with the development and implementation of these initiatives, the Company has incurred, and expects to continue to incur, additional expenses, including, among others, expenses associated with discontinuing underperforming operations and closing certain of its plants and facilities and related severance costs. The development and implementation of these initiatives also requires management to divert a portion of its time from day-to-day operations. These expenses and diversions could have a significant impact on the Company's operations and profitability, particularly if the initiatives included in any new endeavor prove to be unsuccessful. Moreover, if the Company is unable to implement an initiative in a timely manner, or if those initiatives turn out to be ineffective or are executed improperly, the Company's business and operating results would be adversely affected.

***The Company's substantial level of indebtedness could adversely affect its financial condition.***

The Company has substantial indebtedness. As of June 29, 2008, the Company had a total of \$211.4 million of debt outstanding, including \$190.0 million outstanding in aggregate principal amount of 2014 notes, \$3.0 million outstanding under the Company's amended revolving credit facility, \$17.1 million outstanding in loans relating to a Brazilian government tax program, and \$1.3 million outstanding on a sale leaseback obligation.

The Company's outstanding indebtedness could have important consequences to investors, including the following:

its high level of indebtedness could make it more difficult for the Company to satisfy its obligations with respect to its outstanding notes, including its repurchase obligations;

the restrictions imposed on the operation of its business may hinder its ability to take advantage of strategic opportunities to grow its business;

its ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired;

the Company must use a substantial portion of its cash flow from operations to pay interest on its indebtedness, which will reduce the funds available to the Company for operations and other purposes;

its high level of indebtedness could place the Company at a competitive disadvantage compared to its competitors that may have proportionately less debt;

its flexibility in planning for, or reacting to, changes in its business and the industry in which it operates may be limited; and

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its high level of indebtedness makes the Company more vulnerable to economic downturns and adverse developments in its business.

Any of the foregoing could have a material adverse effect on the Company's business, financial condition, results of operations, prospects and ability to satisfy its obligations under its indebtedness.

***Despite its current indebtedness levels, the Company may still be able to incur substantially more debt. This could further exacerbate the risks associated with its substantial leverage.***

The Company and its subsidiaries may be able to incur substantial additional indebtedness, including additional secured indebtedness, in the future. The terms of its current debt restrict, but do not completely prohibit, the Company from doing so. The Company's amended revolving credit facility permits up to \$100 million of borrowings, which the Company can request be increased to \$150 million under certain circumstances, with a borrowing base specified in the credit facility as equal to specified percentages of eligible accounts receivable and inventory. In addition, the indenture with respect to the 2014 notes dated May 26, 2006 between the Company and its subsidiary guarantors and U.S. Bank, National Association, as Trustee (the "Indenture") allows the Company to issue additional notes under certain circumstances and to incur certain other additional secured debt, and allows its foreign subsidiaries to incur additional debt. The Indenture for its 2014 notes does not prevent the Company from incurring other liabilities that do not constitute indebtedness. If new debt or other liabilities are added to its current debt levels, the related risks that the Company now faces could intensify.

***The Company will require a significant amount of cash to service its indebtedness and its ability to generate cash depends on many factors beyond its control.***

The Company's principal sources of liquidity are cash flows generated from operations and borrowings under its amended revolving credit facility. The Company's ability to make payments on, to refinance its indebtedness and to fund planned capital expenditures will depend on its ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond its control.

The business may not generate cash flows from operations, and future borrowings may not be available to the Company under its amended revolving credit facility in an amount sufficient to enable the Company to pay its indebtedness and to fund its other liquidity needs. If the Company is not able to generate sufficient cash flow or borrow under its amended revolving credit facility for these purposes, the Company may need to refinance or restructure all or a portion of its indebtedness on or before maturity, reduce or delay capital investments or seek to raise additional capital. The Company may not be able to implement one or more of these alternatives on terms that are acceptable or at all. The terms of its existing or future debt agreements may restrict the Company from adopting any of these alternatives. The failure to generate sufficient cash flow or to achieve any of these alternatives could materially adversely affect the Company's financial condition.

In addition, without such refinancing, the Company could be forced to sell assets to make up for any shortfall in its payment obligations under unfavorable circumstances. The Company's amended revolving credit facility and the Indenture for its 2014 notes limit its ability to sell assets and also restrict the use of proceeds from any such sale. Furthermore, the 2014 notes and its amended revolving credit facility are secured by substantially all of its assets. Therefore, the Company may not be able to sell its assets quickly enough or for sufficient amounts to enable the Company to meet its debt service obligations.

***The terms of the Company's outstanding indebtedness impose significant operating and financial restrictions, which may prevent the Company from pursuing certain business opportunities and taking certain actions.***

The terms of the Company's outstanding indebtedness impose significant operating and financial restrictions on its business. These restrictions will limit or prohibit, among other things, its ability to:

incur and guarantee indebtedness or issue preferred stock;

repay subordinated indebtedness prior to its stated maturity;

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pay dividends or make other distributions on or redeem or repurchase the Company's stock;

issue capital stock;

make certain investments or acquisitions;

create liens;

sell certain assets or merge with or into other companies;

enter into certain transactions with stockholders and affiliates;

make capital expenditures; and

restrict dividends, distributions or other payments from its subsidiaries.

In addition, the Company's amended revolving credit facility also requires the Company to meet a minimum fixed charge ratio test if borrowing capacity is less than \$25 million at any time during the quarter and restricts its ability to make capital expenditures or prepay certain other debt. The Company may not be able to maintain this ratio. These restrictions could limit its ability to plan for or react to market conditions or meet its capital needs. The Company may not be granted waivers or amendments to its amended revolving credit facility if for any reason the Company is unable to meet its requirements or the Company may not be able to refinance its debt on terms that are acceptable, or at all.

The breach of any of these covenants or restrictions could result in a default under the Indenture for its 2014 notes or its amended revolving credit facility. An event of default under its debt agreements would permit some of its lenders to declare all amounts borrowed from them to be due and payable.

***The sale of certain excess assets may not be concluded and the Company's cash position may be adversely effected.***

The Company intends to sell certain excess assets. The Company has entered into negotiations to sell its interest in YUFI. The Company understands that negotiations with the potential buyer are continuing and until a definitive agreement has been reached, there is a risk that the transactions may not be accomplished. In addition, the Company is offering for sale all remaining assets and structures located at the Company's Kinston polyester facility. The Company retains certain rights to sell these assets for a period of two years from March 20, 2008. If after the two year period has past and the assets have not been sold, the Company will convey these assets to DuPont for no value. If the Company is unsuccessful in facilitating a sale of some or all of these assets, it will reduce the Company's expected restricted cash position.

***The Company faces intense competition from a number of domestic and foreign yarn producers and importers of textile and apparel products.***

The Company's industry is highly competitive. The Company competes not only against domestic and foreign yarn producers, but also against importers of foreign sourced fabric and apparel into the U.S. and other countries in which the Company does business. The Company's major regional competitors are AKRA, S.A. de C.V., O'Mara, Inc., Nanya, and Spectrum, in the polyester yarn segment and Sapona Manufacturing Company, Inc., McMichael Mills, Inc. and Worldtex, Inc. in the nylon yarn segment. The importation of garments and fabric from lower wage-based countries and overcapacity throughout the world has resulted in lower net sales, gross profits and net income for both

its polyester and nylon segments. The primary competitive factors in the textile industry include price, quality, product styling and differentiation, flexibility of production and finishing, delivery time and customer service. The needs of particular customers and the characteristics of particular products determine the relative importance of these various factors. Because the Company, and the supply chain in which the Company operates, do not typically operate on the basis of long-term contracts with textile and apparel customers, these competitive factors could cause the Company's customers to rapidly shift to other producers. A large number of the Company's foreign competitors have significant competitive advantages, including lower labor costs, lower raw materials and energy costs and favorable currency exchange rates against the U.S. dollar. If any of these advantages increase, the Company's products could become less competitive, and its sales and profits may decrease as a result. In addition,

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while traditionally these foreign competitors have focused on commodity production, they are now increasingly focused on value-added products, where the Company continues to generate higher margins. Competitive pressures may also intensify as a result of the elimination of China safeguard measures and the potential elimination of duties. The Company, and the supply chain in which the Company operates, may therefore not be able to continue to compete effectively with imported foreign-made textile and apparel products, which would materially adversely affect its business, financial condition, results of operations or cash flows.

### ***The Company is dependent on a relatively small number of customers for a significant portion of our net sales.***

A significant portion of the Company's net sales is derived from a relatively small number of customers and in particular the sales to one customer, Hanesbrands, Inc. Hanesbrands, Inc. and the Company have entered into a supply agreement to provide products to this customer, and this agreement expires in April 2009. If this agreement is not renewed, and the sales to this customer are reduced, the result could have a material adverse effect on the Company's business and operating results. The Company expects to continue to depend upon its principal customers for a significant portion of its sales, although there can be no assurance that the Company's principal customers will continue to purchase products and services from it at current levels, if at all. The loss of one or more major customers or a change in their buying patterns could have a material adverse effect on the Company's business, financial condition and results of operations.

### ***Changes in the trade regulatory environment could weaken the Company's competitive position dramatically and have a material adverse effect on its business, net sales and profitability.***

A number of sectors of the textile industry in which the Company sells its products, particularly apparel, hosiery and home furnishings, are subject to intense foreign competition. Other sectors of the textile industry in which the Company sells its products may in the future become subject to more intense foreign competition. There are currently a number of trade regulations, quotas and duties in place to protect the U.S. textile industry against competition from low-priced foreign producers, such as China. Changes in such trade regulations, quotas and duties may make its products less attractive from a price standpoint than the goods of its competitors or the finished apparel products of a competitor in the supply chain, which could have a material adverse effect on the Company's business, net sales and profitability. In addition, increased foreign capacity and imports that compete directly with its products could have a similar effect. Furthermore, one of the Company's key business strategies is to expand its business within countries that are parties to free-trade agreements with the U.S. Any relaxation of duties or other trade protections with respect to countries that are not parties to those free-trade agreements could therefore decrease the importance of the trade agreements and have a material adverse effect on its business, net sales and profitability. Two examples of potentially adverse consequences can be found in the recently signed CAFTA agreement. An amendment to require US or regional pocketing yarn and fabric to advantage duty free CAFTA treatment has been signed by the participatory CAFTA countries, but not yet passed through their legislative processes, which is required for the measure to take effect. Additionally, a customs ruling has been issued that allows the use of foreign singled textured sewing thread in the CAFTA region. Failure to overturn this ruling or correct this issue could have some material adverse effect on this business segment. See Item 1. Business Trade Regulation for more information.

### ***A decline in general economic or political conditions and changes in consumer spending could cause the Company's sales and profits to decline.***

The Company's products are used in the production of fabric primarily for the apparel, hosiery, home furnishing, automotive, industrial and other similar end-use markets. Demand for furniture and durable goods, such as automobiles, is often affected significantly by economic conditions. Demand for a number of categories of apparel also tends to be tied to economic cycles. Domestic demand for textile products therefore tends to vary with the business cycles of the U.S. economy as well as changes in global economic and political conditions. Future armed



conflicts, terrorist activities or natural disasters in the U.S. or abroad and any consequent actions on the part of the U.S. government and others may cause general economic conditions in the U.S. to deteriorate or otherwise reduce U.S. consumer spending. A decline in general economic conditions or consumer confidence may also lead to

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significant changes to inventory levels and, in turn, replenishment orders placed with suppliers. These changing demands ultimately work their way through the supply chain and could adversely affect demand for the Company's products and have a material adverse effect on its business, net sales and profitability.

***Failure to successfully reduce the Company's production costs may adversely affect its financial results.***

A significant portion of the Company's strategy relies upon its ability to successfully rationalize and improve the efficiency of its operations. In particular, the Company's strategy relies on its ability to reduce its production costs in order to remain competitive. Over the past four years, the Company has consolidated multiple unprofitable businesses and production lines in an effort to match operating rates to the market, reduce overhead and supply costs, focus on optimizing the product mix amongst its reorganized assets, and made significant capital expenditures to more completely automate its production facilities, lessen the dependence on labor and decrease waste. If the Company is not able to continue to successfully implement cost reduction measures, or if these efforts do not generate the level of cost savings that it expects going forward or result in higher than expected costs, there could be a material adverse effect on its business, financial condition, results of operations or cash flows.

***Changes in customer preferences, fashion trends and end-uses could have a material adverse effect on the Company's business, net sales and profitability and cause inventory build-up if the Company is not able to adapt to such changes.***

The demand for many of the Company's products depends upon timely identification of consumer preferences for fabric designs, colors and styles. In the apparel sector, a failure by the Company or its customers to identify fashion trends in time to introduce products and fabric consistent with those trends could reduce its sales and the acceptance of its products by its customers and decrease its profitability as a result of costs associated with failed product introductions and reduced sales. The Company's nylon segment continues to be adversely affected by changing customer preferences that have reduced demand for sheer hosiery products. In all sectors, changes in customer preferences or specifications may cause shifts away from the products which the Company provides, which can also have an adverse effect on its business, net sales and profitability.

***The Company has significant foreign operations and its results of operations may be adversely affected by currency fluctuations.***

The Company has a significant operation in Brazil, an operation in Colombia and joint ventures in China and Israel. The Company serves customers in Canada, Mexico, Israel and various countries in Europe, Central America, South America and South Africa. Foreign operations are subject to certain political, economic and other uncertainties not encountered by its domestic operations that can materially affect sales, profits, cash flows and financial position. The risks of international operations include trade barriers, duties, exchange controls, national and regional labor strikes, social and political risks, general economic risks, required compliance with a variety of foreign laws, including tax laws, the difficulty of enforcing agreements and collecting receivables through foreign legal systems, taxes on distributions or deemed distributions to the Company or any of its U.S. subsidiaries, maintenance of minimum capital requirements and import and export controls. Through its foreign operations, the Company is also exposed to currency fluctuations and exchange rate risks. Because a significant amount of its costs incurred to generate the revenues of its foreign operations are denominated in local currencies, while the majority of its sales are in U.S. dollars, the Company has in the past been adversely impacted by the appreciation of the local currencies relative to the U.S. dollar, and currency exchange rate fluctuations could have a material adverse effect on its business, financial condition, results of operations or cash flows. The Company has translated its revenues and expenses denominated in local currencies into U.S. dollars at the average exchange rate during the relevant period and its assets and liabilities denominated in local currencies into U.S. dollars at the exchange rate at the end of the relevant period. Fluctuations in the foreign exchange rates will affect period-to-period comparisons of its reported results. Additionally, the Company operates in countries

with foreign exchange controls. These controls may limit its ability to repatriate funds from its international operations and joint ventures or otherwise convert local currencies into U.S. dollars. These limitations could adversely affect the Company's ability to access cash from these operations.

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***Recent changes in the Company's senior management and on its Board may cause uncertainty in, or be disruptive to, the Company's business.***

The Company experienced significant changes in its senior management and on the Board in fiscal year 2008. On August 1, 2007, the Company announced that the Board terminated Brian Parke as the Chairman, President and CEO of the Company. Mr. Parke had been President of the Company since 1999, CEO since 2000 and Chairman since 2004. In addition, there were several changes to the Board, including the resignation of six directors, including Mr. Parke, and the appointment of three new directors. On August 22, 2007, the Company announced an internal reorganization that involved the termination of Benny L. Holder, the Company's Vice President and Chief Information Officer.

On September 26, 2007, the Company announced that the Board elected Mr. William Jasper as the Company's President and CEO. In addition, Mr. Roger Berrier was elected Executive Vice President of Sales, Marketing, and Asian Operations. Mr. Berrier assumed responsibility for all marketing, sales, and customer service functions as well as the Company's joint venture in China. On the same day, Mr. Jasper and Mr. Berrier were also appointed to the Company's Board. On October 4, 2007, the Company announced that Mr. Ronald Smith was elected as its CFO replacing Mr. William Lowe, Jr. whose employment with the Company was terminated.

The Company currently does not have any employment agreements with its corporate officers and cannot assure investors that any of these individuals will remain with the Company. The Company currently does not have a life insurance policy on any of the members of the senior management team. These changes in the Company's senior management and on the Board may be disruptive to its business, and, during this current transition period, there may be uncertainty among investors, vendors, customers, rating agencies, employees and others concerning the Company's future direction and performance. Moreover, the Company's future success depends to a significant extent on its ability to attract and retain senior management personnel. The loss of any of its senior managers could have a material adverse affect on the Company's results of operations and financial condition.

***The Company may be exposed to liabilities under the Foreign Corrupt Practices Act and any determination that the Company violated the Foreign Corrupt Practices Act could have a material adverse effect on its business.***

To the extent that the Company operates outside the U.S., it is subject to the Foreign Corrupt Practices Act (the FCPA) which generally prohibits U.S. companies and their intermediaries from bribing foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. In particular, the Company may be held liable for actions taken by its strategic or local partners even though such partners are foreign companies that are not subject to the FCPA. Any determination that the Company violated the FCPA could result in sanctions that could have a material adverse effect on its business.

***The Company's business could be negatively impacted by the financial condition of its customers.***

The U.S. textile and apparel industry faces many challenges. Overcapacity, volatility in raw material pricing, and intense pricing pressures have led to the closure of many domestic textile and apparel plants. Continued negative industry trends may result in the deteriorating financial condition of its customers. Certain of the Company's customers are experiencing financial difficulties. The loss of any significant portion of its sales to any of these customers could have a material adverse impact on its business, results of operations, financial condition or cash flows. In addition, any receivable balances related to its customers would be at risk in the event of their bankruptcy. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Review of Fiscal Year 2007 Results of Operations (52 Weeks) Compared to Fiscal Year 2006 (52 Weeks) for fiscal year 2007 losses directly related to customer bankruptcies.

As one of the many participants in the U.S. and regional textile and apparel supply chain, the Company's business and competitive position are directly impacted by the business and financial condition of the other participants across the supply chain in which it operates, including other regional yarn manufacturers, knitters and weavers. If other supply chain participants are unable to access capital, fund their operations and make required technological and other investments in their businesses or experience diminished demand for their products, there could be a material adverse impact on the Company's business, financial condition, results of operations or cash flows.

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***Failure to implement future technological advances in the textile industry or fund capital expenditure requirements could have a material adverse effect on the Company's competitive position and net sales.***

The Company's operating results depend to a significant extent on its ability to continue to introduce innovative products and applications and to continue to develop its production processes to be a competitive producer. Accordingly, to maintain its competitive position and its revenue base, the Company must continually modernize its manufacturing processes, plants and equipment. To this end, the Company has made significant investments in its manufacturing infrastructure over the past fifteen years and does not currently anticipate any significant additional capital expenditures to replace or expand its production facilities over the next five years. Accordingly, the Company expects its capital requirements in the near term will be used primarily to maintain its manufacturing operations, but future technological advances in the textile industry may result in the availability of new products or increase the efficiency of existing manufacturing and distribution systems, and the Company may not be able to adapt to such technological changes or offer such products on a timely basis or establish or maintain competitive positions if it does not incur significant capital expenditures for expansion purposes. Existing, proposed or yet undeveloped technologies may render its technology less profitable or less viable, and the Company may not have available the financial and other resources to compete effectively against companies possessing such technologies. To the extent sources of funds are insufficient to meet its ongoing capital improvement requirements, the Company would need to seek alternative sources of financing or curtail or delay capital spending plans. The Company may not be able to obtain the necessary financing when needed or on terms acceptable to us. The Company is unable to predict which of the many possible future products and services will meet the evolving industry standards and consumer demands. If the Company fails to make the capital improvements necessary to continue the modernization of its manufacturing operations and reduction of its costs, its competitive position may suffer, and its net sales may decline.

***Unforeseen or recurring operational problems at any of the Company's facilities may cause significant lost production, which could have a material adverse effect on its business, financial condition, results of operations and cash flows.***

The Company's manufacturing process could be affected by operational problems that could impair its production capability. Each of its facilities contains complex and sophisticated machines that are used in its manufacturing process. Disruptions at any of its facilities could be caused by maintenance outages; prolonged power failures or reductions; a breakdown, failure or substandard performance of any of its machines; the effect of noncompliance with material environmental requirements or permits; disruptions in the transportation infrastructure, including railroad tracks, bridges, tunnels or roads; fires, floods, earthquakes or other catastrophic disasters; labor difficulties; or other operational problems. Any prolonged disruption in operations at any of its facilities could cause significant lost production, which would have a material adverse effect on its business, financial condition, results of operations and cash flows.

***The Company has made and may continue to make investments in entities that it does not control.***

The Company has established joint ventures and made minority interest investments designed to increase its vertical integration, increase efficiencies in its procurement, manufacturing processes, marketing and distribution in the U.S. and other markets. The Company's principal joint ventures and minority investments include UNF, PAL, and YUFI. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Joint Ventures and Other Equity Investments for a further discussion. The Company's inability to control entities in which it invests may affect its ability to receive distributions from those entities or to fully implement its business plan. The incurrence of debt or entry into other agreements by an entity not under its control may result in restrictions or prohibitions on that entity's ability to pay dividends or make other distributions. Even where these entities are not restricted by contract or by law from making distributions, the Company may not be able to influence the occurrence or timing of such distributions. In addition, if any of the other investors in these entities fails to observe its

commitments, that entity may not be able to operate according to its business plan or the Company may be required to increase its level of commitment. If any of these events were to occur, its business, results of operations, financial condition or cash flows could be adversely affected. Because the Company does not own a majority or maintain voting control of these entities, the Company does not have the ability to control their policies,

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management or affairs. The interests of persons who control these entities or partners may differ from the Company's, and they may cause such entities to take actions which are not in its best interest. If the Company is unable to maintain its relationships with its partners in these entities, the Company could lose its ability to operate in these areas which could have a material adverse effect on its business, financial condition, results of operations or cash flows.

### ***The Company's acquisition strategy may not be successful, which could adversely affect its business.***

The Company has expanded its business partly through acquisitions and may continue to make selective acquisitions. The Company's acquisition strategy is dependent upon the availability of suitable acquisition candidates, obtaining financing on acceptable terms, and its ability to comply with the restrictions contained in its debt agreements. Acquisitions may divert a significant amount of management's time away from the operation of its business. Future acquisitions may also have an adverse effect on its operating results, particularly in the fiscal quarters immediately following their completion while the Company integrates the operations of the acquired business. Growth by acquisition involves risks that could have a material adverse effect on business and financial results, including difficulties in integrating the operations and personnel of acquired companies and the potential loss of key employees and customers of acquired companies. Once integrated, acquired operations may not achieve the levels of revenues, profitability or productivity comparable with those achieved by its existing operations, or otherwise performs as expected. While the Company has experience in identifying and integrating acquisitions, the Company may not be able to identify suitable acquisition candidates, obtain the capital necessary to pursue its acquisition strategy or complete acquisitions on satisfactory terms or at all. Even if the Company successfully completes an acquisition, it may not be able to integrate it into its business satisfactorily or at all.

### ***Increases of illegal transshipment of textile and apparel goods into the U.S. could have a material adverse effect on the Company's business.***

According to industry experts and trade associations illegal transshipments of apparel products into the U.S. continues to negatively impact the textile market. Illegal transshipment involves circumventing quotas by falsely claiming that textiles and apparel are a product of a particular country of origin or include yarn of a particular country of origin to avoid paying higher duties or to receive benefits from regional free-trade agreements, such as NAFTA and CAFTA. If illegal transshipment is not monitored and enforcement is not effective, these shipments could have a material adverse effect on its business.

### ***The Company is subject to many environmental and safety regulations that may result in significant unanticipated costs or liabilities or cause interruptions in its operations.***

The Company is subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances relating to pollution, the protection of the environment and the use or cleanup of hazardous substances and wastes. The Company may incur substantial costs, including fines, damages and criminal or civil sanctions, or experience interruptions in its operations for actual or alleged violations of or compliance requirements arising under environmental laws, any of which could have a material adverse effect on its business, financial condition, results of operations or cash flows. The Company's operations could result in violations of environmental laws, including spills or other releases of hazardous substances to the environment. In the event of a catastrophic incident, the Company could incur material costs.

In addition, the Company could incur significant expenditures in order to comply with existing or future environmental or safety laws. For example, on September 30, 2004, the Company completed its acquisition of the polyester filament manufacturing assets located at Kinston from INVISTA. The land for the Kinston site was leased pursuant to a 99 year Ground Lease with DuPont. Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the EPA and DENR pursuant to the Resource Conservation and Recovery Act Corrective Action program. The Corrective Action program requires DuPont to identify all potential AOCs, assess the



extent of contamination at the identified AOCs and clean them up to comply with applicable regulatory standards. Under the terms of the Ground Lease, upon completion by DuPont of required remedial action, ownership of the Kinston site was to pass to the Company and after seven years of sliding scale shared responsibility with Dupont, the Company would have had sole responsibility for future remediation requirements, if any. Effective

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March 20, 2008, the Company entered into a Lease Termination Agreement associated with conveyance of certain of the assets at Kinston to DuPont. This agreement terminated the Ground Lease and relieved the Company of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to the Company's period of operation of the Kinston site. However, the Company continues to own a satellite service facility acquired in the INVISTA transaction that has contamination from DuPont's operations and is monitored by DENR. This site has been remediated by DuPont and DuPont has received authority from DENR to discontinue remediation, other than natural attenuation. DuPont's duty to monitor and report to DENR will be transferred to the Company in the future, at which time DuPont must pay the Company seven years of monitoring and reporting costs and the Company will assume responsibility for any future remediation and monitoring of this site. At this time, the Company has no basis to determine if and when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Environmental Liabilities.

Furthermore, the Company may be liable for the costs of investigating and cleaning up environmental contamination on or from its properties or at off-site locations where the Company disposed of or arranged for the disposal or treatment of hazardous materials or from disposal activities that pre-dated the purchase of its businesses. If significant previously unknown contamination is discovered, existing laws or their enforcement change or its indemnities do not cover the costs of investigation and remediation, then such expenditures could have a material adverse effect on the Company's business, financial condition, and results of operations or cash flows.

### ***Health and safety regulation costs could increase.***

The Company's operations are also subject to regulation of health and safety matters by the U.S. Occupational Safety and Health Administration and comparable statutes in foreign jurisdictions where the Company operates. The Company believes that it employs appropriate precautions to protect its employees and others from workplace injuries and harmful exposure to materials handled and managed at its facilities. However, claims that may be asserted against the Company for work-related illnesses or injury, and changes in occupational health and safety laws and regulations in the U.S. or in foreign jurisdictions in which the Company operates could increase its operating costs. The Company is unable to predict the ultimate cost of compliance with these health and safety laws and regulations. Accordingly, the Company may become involved in future litigation or other proceedings or be found to be responsible or liable in any litigation or proceedings, and such costs may be material to the Company.

### ***The Company's business may be adversely affected by adverse employee relations.***

The Company employs approximately 2,800 employees, approximately 2,400 of which are domestic employees and approximately 400 of which are foreign employees. While employees of its foreign operations are generally unionized, none of its domestic employees are currently covered by collective bargaining agreements. The failure to renew collective bargaining agreements with employees of the Company's foreign operations and other labor relations issues, including union organizing activities, could result in an increase in costs or lead to a strike, work stoppage or slow down. Such labor issues and unrest by its employees could have a material adverse effect on the Company's business.

### ***The Company's future financial results could be adversely impacted by asset impairments or other charges.***

Under Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company is required to assess the impairment of the Company's long-lived assets, such as plant and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable as measured by the sum of the expected future undiscounted cash flows. When the Company determines that the carrying value of certain long-lived assets may not be recoverable based upon the existence of one or more

impairment indicators, the Company then measures any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in its current business model. In accordance with SFAS No. 144, any such impairment charges will be recorded as operating losses. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of

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Operations   Review of Fiscal Year 2008 Results of Operations (53 Weeks) Compared to Fiscal Year 2007 (52 Weeks) for fiscal year 2008 impairment charges relating to long-lived assets.

In addition, the Company evaluates the net values assigned to various equity investments it holds, such as its investment in YUFI, PAL, and UNF, in accordance with the provisions of APB 18. APB 18 requires that a loss in value of an investment, which is other than a temporary decline, should be recognized as an impairment loss. Any such impairment losses will be recorded as operating losses. See   Item 7. Management   s Discussion and Analysis of Financial Condition and Results of Operations   Joint Ventures and Other Equity Investments   for more information regarding the Company   s equity investments.

Any operating losses resulting from impairment charges under SFAS No. 144 or APB 18 could have an adverse effect on its operating results and therefore the market price of its securities, including its common stock.

***The Company   s business could be adversely affected if the Company fails to protect its intellectual property rights.***

The Company   s success depends in part on its ability to protect its intellectual property rights. The Company relies on a combination of patent, trademark, and trade secret laws, licenses, confidentiality and other agreements to protect its intellectual property rights. However, this protection may not be fully adequate: its intellectual property rights may be challenged or invalidated, an infringement suit by the Company against a third party may not be successful and/or third parties could design around its technology or adopt trademarks similar to its own. In addition, the laws of some foreign countries in which its products are manufactured and sold do not protect intellectual property rights to the same extent as the laws of the United States. Although the Company routinely enters into confidentiality agreements with its employees, independent contractors and current and potential strategic and joint venture partners, among others, such agreements may be breached, and the Company could be harmed by unauthorized use or disclosure of its confidential information. Further, the Company licenses trademarks from third parties, and these agreements may terminate or become subject to litigation. Its failure to protect its intellectual property could materially and adversely affect its competitive position, reduce revenue or otherwise harm its business. The Company may also be accused of infringing or violating the intellectual property rights of third parties. Any such claims, whether or not meritorious, could result in costly litigation and divert the efforts of its personnel. Should the Company be found liable for infringement, the Company may be required to enter into licensing arrangements (if available on acceptable terms or at all) or pay damages and cease selling certain products or using certain product names or technology. The Company   s failure to prevail in any intellectual property litigation could materially adversely affect its competitive position, reduce revenue or otherwise harm its business.

**Item 1B.   *Unresolved Staff Comments***

None.

**Table of Contents****Item 2. Properties**

Following is a summary of principal properties owned or leased by the Company as of June 29, 2008:

Location	Description
<b>Polyester Segment Properties:</b>	
<i>Domestic:</i>	
Yadkinville, NC	Five plants and three warehouses
Kinston, NC	One plant and one warehouse
Reidsville, NC	One plant
Mayodan, NC	One plant
Staunton, VA	One plant and one warehouse
<i>Foreign:</i>	
Alfenas, Brazil	One plant and one warehouse
Sao Paulo, Brazil	One corporate office
<b>Nylon Segment Properties:</b>	
<i>Domestic</i>	
Madison, NC	One plant
Fort Payne, AL	One central distribution center
<i>Foreign:</i>	
Bogota, Colombia	One plant

As of June 29, 2008, the Company owned 4.7 million square feet of manufacturing, warehouse and office space.

In addition to the above properties, the corporate administrative office for each of its segments is located at 7201 West Friendly Ave. in Greensboro, North Carolina. Such property consists of a building containing approximately 100,000 square feet located on a tract of land containing approximately nine acres.

All of the above facilities are owned in fee simple, with the exception of a plant in Mayodan, North Carolina which is leased from a financial institution pursuant to a sale leaseback agreement entered into on May 20, 1997, as amended; one plant and one warehouse in Staunton, Virginia, one plant and one warehouse in Kinston, North Carolina and one office in Sao Paulo, Brazil. Management believes all the properties are well maintained and in good condition. In fiscal year 2008, the Company's manufacturing plants in the U.S. and Brazil operated below capacity. Accordingly, management does not perceive any capacity constraints in the foreseeable future.

As of June 29, 2008, the Company had certain properties classified as assets held for sale which includes real property in Yadkinville, North Carolina.

**Item 3. 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 of which any of its property is the subject.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year 2008.

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**EXECUTIVE OFFICERS OF THE COMPANY**

The following is a description of the name, age, position and offices held, and the period served in such position or offices for each of the executive officers of the Company.

**President and Chief Executive Officer**

*WILLIAM L. JASPER* Age: 55 Mr. Jasper has been the Company's President and Chief Executive Officer since September 2007. He had been the Vice President of Sales since 2006. Prior to that, Mr. Jasper was the General Manager of the Polyester segment, having responsibility for all natural polyester businesses. He joined the Company with the purchase of the Kinston polyester POY assets from INVISTA in September 2004. Prior to joining the Company, he was the Director of INVISTA's Dacron® polyester filament business. Before working at INVISTA, Mr. Jasper held various management positions in operations, technology, sales and business for DuPont since 1980. He has been a director since September 2007 and is a member of the Company's Executive Committee.

**Vice Presidents**

*RONALD L. SMITH* Age: 40 Mr. Smith has been Vice President & Chief Financial Officer of the Company since October 2007. He was appointed Vice President of Finance and Treasurer in September 2007. Mr. Smith joined the Company in November 1994 and has held positions as Controllor, Chief Accounting Officer and Director of Business Development and Corporate Strategy. He most recently held the position of Treasurer and had additional responsibility for Investor Relations.

*R. ROGER BERRIER* Age: 39 Mr. Berrier has been the Executive Vice President of Sales, Marketing and Asian Operations of the Company since September 2007. Prior to that, he had been the Vice President of Commercial Operations since April 2006 and the Commercial Operations Manager responsible for corporate product development, marketing and brand sales management from April 2004 to April 2006. Mr. Berrier joined the Company in 1991 and has held various management positions within operations, including international operations, machinery technology, research & development and quality control. He has been a director since September 2007 and is a member of the Company's Executive Committee.

*THOMAS H. CAUDLE, JR.* Age: 56 Mr. Caudle has been the Vice President of Manufacturing since October 2006. He was the Vice President of Global Operations of the Company from April 2003 until October 2006. Prior to that, Mr. Caudle had been Senior Vice President in charge of manufacturing for the Company since July 2000 and Vice President of Manufacturing Services of the Company since January 1999. Mr. Caudle has been an employee of the Company since 1982.

*CHARLES F. MCCOY* Age: 44 Mr. McCoy has been the Vice President, Secretary and General Counsel of the Company since October 2000, the Corporate Compliance Officer since 2002, and the Corporate Governance Officer of the Company since 2004. Mr. McCoy has been an employee of the Company since January 2000, when he joined the Company as Corporate Secretary and General Counsel.

Each of the executive officers was elected by the Board of the Company at the Annual Meeting of the Board held on October 24, 2007. Each executive officer was elected to serve until the next Annual Meeting of the Board or until his successor was elected and qualified. No executive officer has a family relationship as close as first cousin with any other executive officer or director.

**Table of Contents****PART II****Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Company's common stock is listed for trading on the New York Stock Exchange ( NYSE ) under the symbol UFI. The following table sets forth the high and low sales prices of the Company's common stock as reported on the NYSE Composite Tape for the Company's two most recent fiscal years.

	<b>High</b>	<b>Low</b>
Fiscal year 2007:		
First quarter ended September 24, 2006	\$ 3.24	\$ 2.26
Second quarter ended December 24, 2006	3.00	1.69
Third quarter ended March 25, 2007	2.98	1.83
Fourth quarter ended June 24, 2007	3.07	2.48
Fiscal year 2008:		
First quarter ended September 23, 2007	\$ 2.81	\$ 1.87
Second quarter ended December 23, 2007	3.05	2.23
Third quarter ended March 23, 2008	2.98	1.80
Fourth quarter ended June 29, 2008	3.06	2.30

As of September 5, 2008, there were approximately 450 record holders of the Company's common stock. A significant number of the outstanding shares of common stock which are beneficially owned by individuals and entities are registered in the name of Cede & Co. Cede & Co. is a nominee of The Depository Trust Company, a securities depository for banks and brokerage firms. The Company estimates that there are approximately 4,400 beneficial owners of its common stock.

No dividends were paid in the past two fiscal years and none are expected to be paid in the foreseeable future. The Indenture governing the 2014 notes and the Company's amended revolving credit facility restrict its ability to pay dividends or make distributions on its capital stock. See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Long-Term Debt Senior Secured Notes and Amended Revolving Credit Facility.

The following table summarizes information as of June 29, 2008 regarding the number of shares of common stock that may be issued under the Company's equity compensation plans:

<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
<b>Number of Shares to be Issued Upon Exercise of Outstanding Options,</b>	<b>Weighted-Average Exercise Price of</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities</b>



<b>Plan Category</b>	<b>Warrants and Rights</b>	<b>Outstanding Options, Warrants and Rights</b>	<b>Reflected in Column (a))</b>
Equity compensation plans approved by shareholders	5,383,516	\$ 4.64	256,451
Equity compensation plans not approved by shareholders			
<b>Total</b>	<b>5,383,516</b>	<b>\$ 4.64</b>	<b>256,451</b>

Under the terms of the 1999 Unifi Inc. Long-Term Incentive Plan ( 1999 Long-Term Incentive Plan ), the maximum number of shares to be issued was approved at 6,000,000. Of the 6,000,000 shares approved for issuance, no more than 3,000,000 may be issued as restricted stock. To date, 258,166 shares have been issued as restricted stock of which 300 shares are unvested as of June 29, 2008. Any option or restricted stock that is forfeited may be reissued under the terms of the plan. The amount forfeited or canceled is included in the number of securities remaining available for future issuance in column (c) in the above table.

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**Recent Sales of Unregistered Securities**

On January 1, 2007, the Company issued approximately 8.3 million shares of its common stock, in exchange for specified assets purchased from Dillon by Unifi Manufacturing, Inc. one of the Company's wholly owned subsidiaries. There were no underwriters used in the transaction. The issuance of these shares of common stock was made in reliance on the exemptions from registration provided by Section 4(2) of the Securities Act of 1933, as amended, as offers and sales not involving a public offering. On February 9, 2007, the Company filed Form S-3 Registration statement under the Securities Act of 1933 to register the resale of these shares.

On April 25, 2003, the Company announced that its Board had reinstituted the Company's previously authorized stock repurchase plan at its meeting on April 24, 2003. The plan was originally announced by the Company on July 26, 2000 and authorized the Company to repurchase of up to 10.0 million shares of its common stock. During fiscal years 2004 and 2003, the Company repurchased approximately 1.3 million and 0.5 million shares, respectively. The repurchase program was suspended in November 2003 and the Company has no immediate plans to reinstitute the program. As of June 24, 2007, there is remaining authority for the Company to repurchase approximately 6.8 million shares of its common stock under the repurchase plan. The repurchase plan has no stated expiration or termination date.

**Table of Contents****PERFORMANCE GRAPH    SHAREHOLDER RETURN ON COMMON STOCK**

Set forth below is a line graph comparing the cumulative total Shareholder return on the Company's Common Stock with (i) the New York Stock Exchange Composite Index, a broad equity market index, and (ii) a peer group selected by the Company in good faith (the Peer Group), assuming in each case, the investment of \$100 on June 29, 2003 and reinvestment of dividends. Including the Company, the Peer Group consists of thirteen publicly traded textile companies, including Albany International Corp., Culp, Inc., Decorator Industries, Inc., Dixie Group, Inc., Hallwood Group Inc., Hampshire Group, Limited, Innovise PLC, Interface, Inc., JPS Industries, Inc., Lydall, Inc., Mohawk Industries, Inc., and Quaker Fabric Corporation.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
**Among Unifi, Inc., The NYSE Composite Index**  
**And A Peer Group**

\* \$100 invested on 6/29/03 in stock & index-including reinvestment of dividends.

	<b>June 29, 2003</b>	<b>June 27, 2004</b>	<b>June 26, 2005</b>	<b>June 25, 2006</b>	<b>June 24, 2007</b>	<b>June 29, 2008</b>
<b>Unifi, Inc.</b>	<b>100.00</b>	<b>44.33</b>	<b>66.00</b>	<b>49.17</b>	<b>46.50</b>	<b>42.17</b>
<b>NYSE Composite</b>	<b>100.00</b>	<b>121.79</b>	<b>136.59</b>	<b>153.48</b>	<b>174.68</b>	<b>174.68</b>
<b>Peer Group</b>	<b>100.00</b>	<b>125.45</b>	<b>134.95</b>	<b>127.32</b>	<b>168.53</b>	<b>118.22</b>

**Table of Contents****Item 6. Selected Financial Data**

	<b>June 29, 2008 (53 Weeks)</b>	<b>June 24, 2007 (52 Weeks)</b>	<b>June 25, 2006 (52 Weeks)</b>	<b>June 26, 2005 (52 Weeks)</b>	<b>June 27, 2004 (52 Weeks)</b>
	<b>(Amounts in thousands, except per share data)</b>				
<b>Summary of Operations:(1)</b>					
Net sales	\$ 713,346	\$ 690,308	\$ 738,665	\$ 792,774	\$ 666,114
Cost of sales	662,764	651,911	692,225	759,792	626,982
Selling, general and administrative expenses	47,572	44,886	41,534	42,211	45,963
Provision for bad debts	214	7,174	1,256	13,172	2,389
Interest expense	26,056	25,518	19,266	20,594	18,706
Interest income	(2,910)	(3,187)	(6,320)	(3,173)	(3,299)
Other (income) expense, net	(6,427)	(2,576)	(1,466)	(2,320)	(1,720)
Equity in (earnings) losses of unconsolidated affiliates	(1,402)	4,292	(825)	(6,938)	6,877
Minority interest income				(530)	(6,430)
Restructuring charges (recoveries)(2)	4,027	(157)	(254)	(341)	8,205
Write down of long-lived assets(3)	2,780	16,731	2,366	603	25,241
Write down of investment in equity affiliates(4)	10,998	84,742			
Goodwill impairment(5)					13,461
Loss on early extinguishment of debt(6)			2,949		
Loss from continuing operations before income taxes and extraordinary item	(30,326)	(139,026)	(12,066)	(30,296)	(70,261)
Provision (benefit) for income taxes	(10,949)	(21,769)	301	(12,360)	(25,497)
Loss from continuing operations before extraordinary item	(19,377)	(117,257)	(12,367)	(17,936)	(44,764)
Income (loss) from discontinued operations, net of tax	3,226	1,465	360	(22,644)	(25,644)
Loss before extraordinary item and cumulative effect of accounting change	(16,151)	(115,792)	(12,007)	(40,580)	(70,408)
Extraordinary gain net of taxes of \$0(7)				1,157	
Net loss	\$ (16,151)	\$ (115,792)	\$ (12,007)	\$ (39,423)	\$ (70,408)

Per Share of Common Stock: (basic and diluted)

Loss from continuing operations	\$	(.32)	\$	(2.09)	\$	(.23)	\$	(.35)	\$	(.86)
Income (loss) from discontinued operations, net of tax		.05		.03				(.43)		(.49)
Extraordinary gain net of taxes of \$0								.02		
Net loss	\$	(.27)	\$	(2.06)	\$	(.23)	\$	(.76)	\$	(1.35)

**Balance Sheet Data:**

Working capital	\$	185,328	\$	194,735	\$	186,050	\$	246,664	\$	239,377
Gross property, plant and equipment		855,324		913,144		914,283		953,313		941,334
Total assets		591,531		665,953		737,148		847,527		872,885
Long-term debt and other obligations		204,366		236,149		202,110		259,790		263,779
Shareholders' equity		305,669		304,954		387,464		385,727		402,251

- (1) On June 25, 2007, the Company changed its method of accounting for certain inventories from the Last-In, First-Out ( LIFO ) method to the First-In, First-Out ( FIFO ) method. The Company applied this change in method of inventory costing by retrospective application to the prior years' financial statements.

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- (2) Restructuring charges (recoveries) consisted of severance and related employee termination costs and facility closure costs.
- (3) The Company performs impairment testing on its long-lived assets periodically, or when an event or change in market conditions indicates that the Company may not be able to recover its investment in the long-lived asset in the normal course of business. As a result of this testing, the Company has determined certain assets had become impaired and recorded impairment charges accordingly.
- (4) In fiscal year 2007, management determined that its investment in PAL was impaired and that the impairment was considered other than temporary. As a result, the Company recorded a non-cash impairment charge of \$84.7 million to reduce the carrying value of its equity investment in PAL to \$52.3 million. In fiscal year 2008 the Company determined that its investments in USTF and YUFI were impaired resulting in non-cash impairment charges of \$4.5 million and \$6.4 million, respectively.
- (5) In fiscal year 2004, management performed an impairment test for the entire domestic polyester segment. As a result of the testing, the Company recorded a goodwill impairment charge of \$13.5 million to reduce the segment's goodwill to \$0.
- (6) In April 2006, the Company commenced a tender offer for all of its outstanding 2008 notes. In May 2006, the Company issued \$190 million of notes due in 2014. The \$2.9 million charge related to the fees associated with the tender offer as well as the unamortized bond issuance costs on the 2008 notes.
- (7) In fiscal year 2005, the Company completed its acquisition of the INVISTA polyester POY manufacturing assets located in Kinston, North Carolina, including inventories, valued at \$24.4 million. As part of the acquisition, the Company announced its plans to curtail two production lines and downsize the workforce at its newly acquired manufacturing facility. At that time, the Company recorded a reserve of \$10.7 million in related severance costs and \$0.4 million in restructuring costs which were recorded as assumed liabilities in purchase accounting; and therefore, had no impact on the Consolidated Statements of Operations. As of March 27, 2005, both lines were successfully shut down and a reduction in the original restructuring estimate for severance was recorded. As a result of the reduction to the restructuring reserve, a \$1.2 million extraordinary gain, net of tax, was recorded.

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

### ***Forward-Looking Statements***

The following discussion contains certain forward-looking statements about the Company's financial condition and results of operations.

Forward-looking statements are those that do not relate solely to historical fact. They include, but are not limited to, any statement that may predict, forecast, indicate or imply future results, performance, achievements or events. They may contain words such as believe, anticipate, expect, estimate, intend, project, plan, will, or words of similar meaning. They may relate to, among other things, the risks described under the caption Item 1A Risk Factors above and:

the competitive nature of the textile industry and the impact of worldwide competition;

changes in the trade regulatory environment and governmental policies and legislation;

the availability, sourcing and pricing of raw materials;

general domestic and international economic and industry conditions in markets where the Company competes, such as recession and other economic and political factors over which the Company has no control;

changes in consumer spending, customer preferences, fashion trends and end-uses;

its ability to reduce production costs;

changes in currency exchange rates, interest and inflation rates;

the financial condition of its customers;

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its ability to sell excess assets;

technological advancements and the continued availability of financial resources to fund capital expenditures;

the operating performance of joint ventures, alliances and other equity investments;

the impact of environmental, health and safety regulations;

the loss of a material customer;

employee relations;

the continuity of the Company's leadership; and

the success of the Company's consolidation initiatives.

These forward-looking statements reflect the Company's current views with respect to future events and are based on assumptions and subject to risks and uncertainties that may cause actual results to differ materially from trends, plans or expectations set forth in the forward-looking statements. These risks and uncertainties may include those discussed above or in Item 1A Risk Factors. New risks can emerge from time to time. It is not possible for the Company to predict all of these risks, nor can it assess the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in forward-looking statements. The Company will not update these forward-looking statements, even if its situation changes in the future, except as required by federal securities laws.

**Business Overview**

The Company is a diversified producer and processor of multi-filament polyester and nylon yarns, including specialty yarns with enhanced performance characteristics. The Company adds value to the supply chain and enhances consumer demand for its products through the development and introduction of branded yarns that provide unique performance, comfort and aesthetic advantages. The Company manufactures partially oriented, textured, dyed, twisted and beamed polyester yarns as well as textured nylon and nylon covered spandex products. The Company sells its products to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, hosiery, furnishings, automotive, industrial and other end-use markets. The Company maintains one of the industry's most comprehensive product offerings and emphasizes quality, style and performance in all of its products.

*Polyester Segment.* The polyester segment manufactures partially oriented, textured, dyed, twisted and beamed yarns with sales to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, automotive, hosiery, furnishings, industrial and other end-use markets. The polyester segment primarily manufactures its products in Brazil, and the United States, which has the largest operations and number of locations. For fiscal years 2008, 2007, and 2006, polyester segment net sales were \$530.6 million, \$530.1 million, and \$566.3 million, respectively.

*Nylon Segment.* The nylon segment manufactures textured nylon and covered spandex products with sales to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, hosiery, sock and other end-use markets. The nylon segment consists of operations in the U.S. and Colombia. For fiscal years 2008, 2007, and 2006, nylon segment net sales were \$182.8 million, \$160.2 million, and \$172.4 million, respectively.

The Company's fiscal year is the 52 or 53 weeks ending on the last Sunday in June. Fiscal year 2008 had 53 weeks while fiscal years 2007 and 2006 had 52 weeks.



**Line Items Presented**

*Net sales.* Net sales include amounts billed by the Company to customers for products, shipping and handling, net of allowances for rebates. Rebates may be offered to specific large volume customers for purchasing certain quantities of yarn over a prescribed time period. The Company provides for allowances associated with rebates in the same accounting period the sales are recognized in income. Allowances for rebates are calculated

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based on sales to customers with negotiated rebate agreements with the Company. Non-defective returns are deducted from revenues in the period during which the return occurs. The Company records allowances for customer claims based upon its estimate of known claims and its past experience for unknown claims.

*Cost of sales.* The Company's cost of sales consists of direct material, delivery and other manufacturing costs, including labor and overhead, depreciation expense with respect to manufacturing assets, fixed asset depreciation and reserves for obsolete and slow-moving inventory. Cost of sales also includes amounts directly related to providing technological support to the Company's Chinese joint venture discussed below.

*Selling general and administrative expenses.* The Company's selling, general and administrative (SG&A) expenses consist of selling expense (which includes sales staff salaries and bonuses), advertising and promotion (which includes direct marketing expenses) and administrative expense (which includes corporate expenses and bonuses). In addition, SG&A expenses also include depreciation and amortization with respect to certain corporate administrative and intangible assets.

## **Recent Developments and Outlook**

During fiscal year 2008, the employment of the Company's prior CEO and CFO was terminated and several members of the Company's Board resigned. Additionally, the Company reorganized certain corporate staff and manufacturing support functions. Following such resignations the Board appointed several new directors, and the Board elected William L. Jasper as the Company's President and CEO and Ronald L. Smith as the Company's CFO.

The Company and its new management team were committed to focus on strategic growth by:

Investing in the development and commercialization of new PVA products

Achieving operational and commercial excellence in its core businesses in the Americas by driving improvement in operational disciplines and customer service

Developing profitable growth opportunities in its foreign operations in Brazil and China.

As part of this strategy, on October 4, 2007, the Company ceased manufacturing POY at its Kinston facility. The Company has further developed strategic relationships with its raw material suppliers to ensure a source of raw materials on a more competitive basis. The Company sold a portion of its nitrogen discharge credits associated with Kinston for \$1.6 million in the second quarter of fiscal year 2008. On March 20, 2008, the Company completed the sale of certain assets located at Kinston. There were no net proceeds from this transaction.

On October 26, 2007, the Company entered into a contract to sell its investment in USTF and the related manufacturing facility for \$11.8 million. On November 30, 2007, the Company completed the sale of USTF and received net proceeds of \$11.9 million from SANS Fibers. The purchase price included \$3.0 million for a manufacturing facility that the Company leased to the joint venture which had a net book value of \$2.1 million. Of the remaining \$8.9 million, \$8.8 million was allocated to the Company's equity investment in the joint venture and \$0.1 million was attributed to interest income.

On September 28, 2007, the Company completed the sale of its manufacturing facilities located in Staunton, Virginia for \$3.1 million. The Company continued to lease the Staunton property under an operating lease which currently expires in November 2008. On May 14, 2008, the Company announced the closing of its Staunton, Virginia facility and the transfer of all production to its facility in Yadkinville, North Carolina. The relocation of its beaming and warp draw production is consistent with the Company's strategy to maximize operational efficiencies and reduce costs. The

Company expects to complete this transition by the end of September 2008.

The Company completed the sales of idle manufacturing facilities located in Dillon, South Carolina, Madison, North Carolina and Reidsville, North Carolina which generated net proceeds of \$3.9 million, \$3.4 million, and \$0.5 million, respectively. In addition, the Company completed the sale of its corporate New York apartment for \$1.4 million during the fourth quarter of fiscal year 2008.

On June 17, 2008, the Company announced that it entered into an asset purchase agreement with Reliance which provides for the sale of all remaining assets and structures located at the Kinston polyester manufacturing facility for \$12.2 million. Out of the proceeds from the sale, the Company would pay DuPont \$3.7 million to satisfy

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certain demolition and removal obligations created by the sale of these assets. The asset purchase agreement was subject to certain closing conditions. On August 27, 2008, the Company was informed that Reliance was terminating the agreement and would not be proceeding with the sale. The Company retains certain rights to sell these assets for a period of two years from March 20, 2008. If these assets are not sold in this two year period, the Company is contractually required to transfer ownership of these assets to DuPont.

In August 2005, the Company formed YUFI, a 50/50 joint venture with YCFC to manufacture, process, and market commodity and specialty polyester filament yarn in China. During fiscal year 2008, the Company's management had been exploring strategic options with its joint venture partner in China, with the ultimate goal of determining if there was a viable path to profitability for YUFI. Management concluded that although YUFI has successfully grown its position in high value and PVA products, commodity sales will continue to be a large and unprofitable portion of YUFI's business. In addition, the Company believes it had focused too much attention and energy on non-value adding issues, detracting management from its primary PVA objectives. Based on these conclusions, the Company decided to exit the joint venture and proposed to sell its 50% interest in YUFI to its partner for \$10.0 million. The Company expects to close the transaction in the second quarter of fiscal year 2009 pending negotiation and execution of definitive agreements and Chinese regulatory approvals although no assurances can be given in this regard. However, there can be no assurances that this transaction will occur in this timetable or upon these terms.

The Company's management has decided that a fundamental change in its approach was required to maximize its earnings and growth opportunities in the Chinese market. Accordingly, the Company plans to form UTSC. This will benefit the Company by removing the challenges facing the joint venture and its commodity production, while providing greater flexibility, faster product innovation, and enhanced service to customers in the growing high-value segments. Under the new business model in China, the Company will continue to market innovative high-value and PVA products as well as work with customers to grow in applications designed to meet ever changing consumer demands, while ensuring high quality production of these products. Initially, the Company's partner, YCFC, will likely serve as the primary toll manufacturer for its PVA yarns, and the Company expects a seamless transition for its customers in the region. UTSC may add other toll manufacturers as appropriate, and may expect to quickly grow the portfolio of PVA yarns available in the region. The Company expects UTSC to be operational during the second quarter of fiscal year 2009. During fiscal year 2009, the Company expects to invest between approximately \$3.0 million to \$5.0 million for initial startup costs and working capital requirements for UTSC.

## **Key Performance Indicators**

The Company continuously reviews performance indicators to measure its success. The following are the indicators management uses to assess performance of the Company's business:

sales volume, which is an indicator of demand;

margins, which are an indicator of product mix and profitability;

net income or loss before interest, taxes, depreciation and amortization and loss or income from discontinued operations otherwise known as Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), which is an indicator of the Company's ability to pay debt; and

working capital of each business unit as a percentage of sales, which is an indicator of the Company's production efficiency and ability to manage its inventory and receivables.

## **Corporate Restructurings**

*Severance*

On April 20, 2006, the Company re-organized its domestic business operations. Approximately 45 management level salaried employees were affected by this plan of reorganization. During fiscal year 2007, the Company recorded an additional \$0.3 million for severance related to this reorganization.

On April 26, 2007, the Company announced its plan to consolidate its domestic capacity and close its recently acquired Dillon polyester facility. The Company recorded an assumed liability in purchase accounting and as a

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result, the Company recorded \$0.7 million for severance in fiscal year 2007. Approximately 291 wage employees and 25 salaried employees were affected by this consolidation plan.

On August 2, 2007, the Company announced the closure of its Kinston, North Carolina facility. The Kinston facility produces POY for internal consumption and third party sales. In the future, the Company will purchase its commodity POY needs from external suppliers for conversion in its texturing operations. The Company will continue to produce POY in the Yadkinville, North Carolina facility for its specialty and premium value yarns and certain commodity yarns. During fiscal year 2008, the Company recorded an additional \$1.3 million for severance related its Kinston consolidation. Approximately 231 employees which included 31 salaried positions and 200 wage positions were affected as a result of this reorganization.

On August 22, 2007, the Company announced its plan to re-organize certain corporate staff and manufacturing support functions to further reduce costs. The Company recorded \$1.1 million for severance related to this reorganization. In addition, the Company recorded severance of \$2.4 million for its former CEO and \$1.7 million for severance related to its former CFO during fiscal year 2008. Approximately 54 salaried employees were affected by this reorganization.

***Restructuring***

In fiscal year 2007, the Company recorded \$2.9 million for restructuring charges related to a portion of sales and service contracts which it entered into with Dillon for continued support of the Dillon business for two years. However, after the Company announced its plan to consolidate the Dillon capacity into its other facilities, a portion of the sales and service contracts were deemed to be unfavorable.

In fiscal year 2008, the Company recorded \$3.4 million for restructuring charges related to unfavorable Kinston contracts for continued services after the closing of the facility.

The Company recorded restructuring charges in lease related costs associated with the closure of its polyester facility in Altamahaw, North Carolina during fiscal year 2004. In the second quarter of fiscal year 2008, the Company negotiated the remaining obligation on the lease and recorded a \$0.3 million net favorable adjustment related to the cancellation of the lease obligation.

The table below summarizes changes to the accrued severance and accrued restructuring accounts for the fiscal years ended June 29, 2008, June 24, 2007, and June 25, 2006, respectively (amounts in thousands):

	<b>Balance at June 24, 2007</b>	<b>Additional Charges</b>	<b>Adjustments</b>	<b>Amount Used</b>	<b>Balance at June 29, 2008</b>
Accrued severance	\$ 877	\$ 6,533	\$ 207	\$ (3,949)	\$ 3,668(1)
Accrued restructuring	5,685	3,125	(176)	(7,220)	1,414

  

	<b>Balance at June 25, 2006</b>	<b>Additional Charges</b>	<b>Adjustments</b>	<b>Amount Used</b>	<b>Balance at June 24, 2007</b>
Accrued severance	\$ 576	\$ 905	\$	\$ (604)	\$ 877
Accrued restructuring	3,550	2,900	233	(998)	5,685

	<b>Balance at June 26, 2005</b>	<b>Additional Charges</b>	<b>Adjustments</b>	<b>Amounts Used</b>	<b>Balance at June 25, 2006</b>
Accrued severance	\$ 5,252	\$ 812	\$ 44	\$ (5,532)	\$ 576
Accrued restructuring	5,053		(195)	(1,308)	3,550

(1) As of June 29, 2008, the Company classified \$1.7 million of the executive severance as long term.

### **Joint Ventures and Other Equity Investments**

*YUFI.* In August 2005, the Company formed YUFI, a 50/50 joint venture with YCFC, a publicly traded (listed in Shanghai and Hong Kong) enterprise, to manufacture, process, and market commodity and specialty polyester filament yarn in YCFC's facilities in China. On August 4, 2005, the Company contributed to YUFI its initial capital contribution of \$15.0 million in cash. On October 12, 2005, the Company transferred an additional

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\$15.0 million in the form of a shareholder loan to complete the capitalization of the joint venture. On July 25, 2006, the shareholder loan was converted to registered capital of the joint venture. The Company granted YUFI an exclusive, non-transferable license to certain of its branded product technology (including Mynx®, Sorbtek®, Reflexx®, and dye springs) in China for a license fee of \$6.0 million over a four year period. The Company recognized equity losses which are reported net of technology and license fee income of \$6.1 million, \$5.8 million and \$3.2 million, for fiscal years 2008, 2007 and 2006, respectively. In addition, the Company recognized \$1.9 million, \$3.8 million and \$2.9 million in operating expenses for fiscal years 2008, 2007 and 2006, respectively, which were primarily reflected on the Cost of sales line item in the Consolidated Statements of Operations, directly related to providing technological support in accordance with the Company's joint venture contract.

In July 2008, the Company announced a proposed agreement to sell its 50% ownership interest in YUFI to its partner, YCFC, for \$10.0 million, pending final negotiation and execution of definitive agreements and the receipt of Chinese regulatory approvals. However, there can be no assurances that this transaction will occur in this timetable or upon these terms. In connection with a review of the YUFI value during negotiations related to the sale, the Company initiated a review of the carrying value of its investment in YUFI in accordance with APB 18. As a result of this review, the Company determined that the carrying value of its investment in YUFI exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of \$6.4 million in the fourth quarter of fiscal year 2008. The Company does not anticipate that the impairment charge will result in any future cash expenditures.

*PAL.* In June 1997, the Company contributed all of the assets of its spun cotton yarn operations, utilizing open-end and air jet spinning technologies, into PAL, a joint venture with Parkdale Mills, Inc. in exchange for a 34% ownership interest in the joint venture. PAL is a producer of cotton and synthetic yarns for sale to the textile and apparel industries primarily within North America. PAL has 12 manufacturing facilities primarily located in central and western North Carolina. As part of its fiscal year 2007 financial close process, the Company reviewed the carrying value of its investment in PAL, in accordance with APB 18. On July 9, 2007, the Company determined that the \$137.0 million carrying value of the Company's investment in PAL exceeded its fair value. The Company recorded a non-cash impairment charge of \$84.7 million in the fourth quarter of the Company's fiscal year 2007 based on an appraised fair value of PAL, less 25% for lack of marketability and its minority ownership percentage. The Company does not anticipate that the impairment charge will result in any future cash expenditures. For fiscal years 2008, 2007, and 2006, the Company reported equity income of \$8.3 million, \$2.5 million, and \$3.8 million, respectively, from PAL. The Company received distributions of \$4.5 million, \$6.4 million, and \$1.8 million during fiscal years 2008, 2007, and 2006, respectively.

*USTF.* On September 13, 2000, the Company formed USTF a 50/50 joint venture with SANS Fibres of South Africa (SANS Fibres), to produce low-shrinkage high tenacity nylon 6.6 light denier industrial, or LDI yarns in North Carolina. The business was operated in its plant in Stoneville, North Carolina. On January 2, 2007, the Company notified SANS Fibres that it was exercising its put right to sell its interest in the joint venture. On November 30, 2007, the Company completed the sale of its 50% interest in Unifi-SANS Technical Fibers, LLC (USTF) to SANS Fibres and received net proceeds of \$11.9 million. The purchase price included \$3.0 million for a manufacturing facility that the Company leased to the joint venture which had a net book value of \$2.1 million. Of the remaining \$8.9 million, \$8.8 million was allocated to the Company's equity investment in the joint venture and \$0.1 million was attributed to interest income.

*UNF.* On September 27, 2000, the Company formed UNF a 50/50 joint venture with Nilit, which produces nylon POY at Nilit's manufacturing facility in Migdal Ha-Emek, Israel, that is its primary source of nylon POY for its texturing and covering operations. The Company purchases nylon POY from UNF produced from three dedicated production lines. The Company's investment in UNF at June 29, 2008 was \$4.0 million. For the fiscal years 2008, 2007, and 2006, the Company reported equity losses of \$0.8 million, \$1.1 million, and \$0.8 million, respectively, from UNF. In July 2007, the Steering Committee of UNF agreed to a program to increase volumes and the utilization of the



extruders and thereby improve the profitability of the joint venture going forward.

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Condensed balance sheet information and income statement information as of June 29, 2008, June 24, 2007, and June 25, 2006 of combined unconsolidated equity affiliates were as follows (amounts in thousands):

	<b>June 29, 2008</b>				
	<b>PAL</b>	<b>YUFI</b>	<b>UNF</b>	<b>USTF</b>	<b>Total</b>
Current assets	\$ 132,526	\$ 30,678	\$ 7,528	\$	\$ 170,732
Noncurrent assets	112,974	59,552	5,329		177,855
Current liabilities	25,799	57,524	4,837		88,160
Noncurrent liabilities					
Shareholder's equity and capital accounts	219,701	32,706	8,020		260,427

	<b>June 24, 2007</b>				
	<b>PAL</b>	<b>YUFI</b>	<b>UNF</b>	<b>USTF</b>	<b>Total</b>
Current assets	\$ 131,737	\$ 17,411	\$ 5,578	\$ 10,148	\$ 164,874
Noncurrent assets	98,088	59,183	7,067	20,975	185,313
Current liabilities	17,637	34,119	3,140	1,680	56,576
Noncurrent liabilities	4,838			6,382	11,220
Shareholder's equity and capital accounts	207,351	42,475	9,504	23,061	282,391

	<b>June 25, 2006</b>				
	<b>PAL</b>	<b>YUFI</b>	<b>UNF</b>	<b>USTF</b>	<b>Total</b>
Current assets	\$ 117,631	\$ 14,524	\$ 6,137	\$ 10,986	\$ 149,278
Noncurrent assets	128,820	59,142	8,948	20,659	217,569
Current liabilities	21,621	50,971	3,371	2,515	78,478
Noncurrent liabilities	8,062			6,254	14,316
Shareholder's equity and capital accounts	216,769	22,695	11,714	22,876	274,054

	<b>Fiscal Year Ended June 29, 2008</b>				
	<b>PAL</b>	<b>YUFI</b>	<b>UNF</b>	<b>USTF</b>	<b>Total</b>
Net sales	\$ 460,497	\$ 140,125	\$ 25,528	\$ 6,455	\$ 632,605
Gross profit (loss)	21,504	(7,545)	175	571	14,705
Depreciation and amortization	17,777	6,170	1,738	578	26,263
Income (loss) from operations	10,437	(14,192)	(1,649)	189	(5,215)
Net income (loss)	24,269	(14,922)	(1,484)	148	8,011

	<b>Fiscal Year Ended June 24, 2007</b>				
	<b>PAL</b>	<b>YUFI</b>	<b>UNF</b>	<b>USTF</b>	<b>Total</b>
Net sales	\$ 440,366	\$ 123,912	\$ 20,852	\$ 24,883	\$ 610,013
Gross profit (loss)	19,785	(7,488)	(2,006)	2,507	12,798

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Depreciation and amortization	24,798	5,276	1,897	2,125	34,096
Income (loss) from operations	5,043	(12,722)	(2,533)	929	(9,283)
Net income (loss)	7,376	(13,570)	(2,210)	671	(7,733)

**Fiscal Year Ended June 25, 2006**

	<b>PAL</b>	<b>YUFI</b>	<b>UNF</b>	<b>USTF</b>	<b>Total</b>
Net sales	\$ 415,221	\$ 101,808	\$ 24,910	\$ 30,138	\$ 572,077
Gross profit (loss)	32,330	(4,131)	(1,199)	4,346	31,346
Depreciation and amortization	26,832	4,123	1,897	1,887	34,739
Income (loss) from operations	10,380	(7,782)	(1,827)	2,395	3,166
Net income (loss)	3,480	(8,073)	(1,567)	1,862	(4,298)

**Table of Contents****Review of Fiscal Year 2008 Results of Operations (53 Weeks) Compared to Fiscal Year 2007 (52 Weeks)**

The following table sets forth the loss from continuing operations components for each of the Company's business segments for fiscal year 2008 and fiscal year 2007. The table also sets forth each of the segments' net sales as a percent to total net sales, the net income (loss) components as a percent to total net sales and the percentage increase or decrease of such components over the prior year:

	Fiscal Year 2008		Fiscal Year 2007		
	% to		% to		% Inc.
	Total		Total		(Dec.)
	(Amounts in thousands, except percentages)				
Consolidated					
Net sales					
Polyester	\$ 530,567	74.4	\$ 530,092	76.8	0.1
Nylon	182,779	25.6	160,216	23.2	14.1
Total	\$ 713,346	100.0	\$ 690,308	100.0	3.3
		% to		% to	
		Net		Net	
		Sales		Sales	
Cost of sales					
Polyester	\$ 494,209	69.3	\$ 499,290	72.3	(1.0)
Nylon	168,555	23.6	152,621	22.1	10.4
Total	662,764	92.9	651,911	94.4	1.7
Selling, general and administrative					
Polyester	40,606	5.7	35,704	5.2	13.7
Nylon	6,966	1.0	9,182	1.3	(24.1)
Total	47,572	6.7	44,886	6.5	6.0
Restructuring charges (recovery)					
Polyester	3,818	0.6	(103)		
Nylon	209		(54)		
Total	4,027	0.6	(157)		
Write down of long-lived assets					
Polyester	2,780	0.4	6,930	1.0	(59.9)
Nylon			8,601	1.2	(100.0)
Corporate	10,998	1.5	85,942	12.5	(87.2)
Total	13,778	1.9	101,473	14.7	(86.4)
Other (income) expenses	15,531	2.2	31,221	4.5	(50.3)

Loss from continuing operations before income taxes	(30,326)	(4.3)	(139,026)	(20.1)	(78.2)
Benefit for income taxes	(10,949)	(1.5)	(21,769)	(3.1)	(49.7)
Loss from continuing operations	(19,377)	(2.8)	(117,257)	(17.0)	(83.5)
Income from discontinued operations, net of tax	3,226	0.5	1,465	0.2	120.2
Net loss	\$ (16,151)	(2.3)	\$ (115,792)	(16.8)	(86.1)

For fiscal year 2008, the Company recognized a \$30.3 million loss from continuing operations before income taxes which was a \$108.7 million improvement over the prior year. The improvement in continuing operations was primarily attributable to decreased charges of \$87.7 million for asset impairments and increased polyester and nylon gross profits which were offset by increased SG&A expenses. During fiscal years 2008 and 2007, raw material prices increased for polyester ingredients in POY.

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Consolidated net sales from continuing operations increased \$23.0 million, or 3.3%, for fiscal year 2008. For the fiscal year 2008, the weighted-average price per pound for the Company's products on a consolidated basis increased 10.1% compared to the prior fiscal year. Unit volume from continuing operations decreased 6.7% for the fiscal year partially due to management's decision to focus on profitable business as well as market conditions. See Polyester Operations and Nylon Operations sections below for additional discussion.

At the segment level, polyester dollar net sales accounted for 74.4% in fiscal year 2008 compared to 76.8% in fiscal year 2007. Nylon accounted for 25.6% of dollar net sales for fiscal year 2008 compared to 23.2% for the prior fiscal year.

Gross profit from continuing operations increased \$12.2 million to \$50.6 million for fiscal year 2008. This increase was primarily attributable to higher volume in the nylon segment, higher conversion margins for the polyester segment, and decreases in the per unit converting costs for both the polyester and nylon segments.

SG&A expenses increased by 6.0% or \$2.7 million for fiscal year 2008. The increase in SG&A for fiscal year 2008 was primarily a result of increases of \$4.1 million in executive severance costs, \$1.2 million in deposit write-offs, \$0.9 million in Dillon acquisition related amortization and service fees, and \$0.4 million in professional fees, insurance, and USTF management fees, and \$0.2 million in other miscellaneous expenses offset by decreases of \$2.2 million in stock-based compensation and deferred compensation charges, \$1.4 million in salaries and fringes, \$0.6 million in employee welfare, wellness, and benefits outsourcing expenses, \$0.5 million in equipment leases and maintenance expenses, and \$0.5 million in depreciation expenses. Included in the above increases in SG&A was an increase of \$1.0 million primarily due to currency exchange differences related to the Company's Brazilian operation.

For the fiscal year 2008, the Company recorded a \$0.2 million provision for bad debts. This compares to a provision of \$7.2 million recorded in the prior fiscal year. The decrease was related to the Company's domestic operations and was primarily attributable to the improved accounts receivable aging. During fiscal year 2007 the Company wrote off the balances related to two customers who filed bankruptcy, as is noted in the Review of Fiscal Year 2007 Results of Operations (52 Weeks) Compared to Fiscal 2006 (52 Weeks) section. Management believes that its reserve for uncollectible accounts receivable is adequate.

Interest expense increased from \$25.5 million in fiscal year 2007 to \$26.1 million in fiscal year 2008, due primarily to borrowings under the revolving credit agreement, related to the January 2007 acquisition of Dillon. The Company had \$3.0 million of outstanding borrowings under its amended revolving credit facility as of June 29, 2008. The weighted average interest rate of Company debt outstanding at June 29, 2008 and June 24, 2007 was 11.3% and 10.8%, respectively. Interest income decreased from \$3.2 million in fiscal year 2007 to \$2.9 million in fiscal year 2008.

Other (income) expense increased from \$2.6 million of income in fiscal year 2007 to \$6.4 million of income in fiscal year 2008. The following table shows the components of other (income) expense:

	<b>Fiscal Years Ended</b>	
	<b>June 29,</b>	<b>June 24, 2007</b>
	<b>2008</b>	
	<b>(Amounts in thousands)</b>	
Net gains on sales of fixed assets	\$ (4,003)	\$ (1,225)
Gain from sale of nitrogen credits	(1,614)	
Currency (gains) losses	522	(393)
Technology fees from China joint venture	(1,398)	(1,226)

Other, net	66	268
	\$ (6,427)	\$ (2,576)

Equity in net income of its equity affiliates, PAL, USTF, UNF, and YUFI was \$1.4 million in fiscal year 2008 compared to equity in net losses of \$4.3 million in fiscal year 2007. The decrease in losses is primarily attributable to income from its investment in PAL offset by YUFI as discussed above. The Company's share of PAL's earnings increased from \$2.5 million of income in fiscal year 2007 to \$8.3 million of income in fiscal year 2008. Other (income) expense for PAL increased by \$14.6 million for fiscal year 2008 compared to fiscal year 2007 primarily due to gains on derivatives and income from legal settlements. The Company expects to continue to receive cash

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distributions from PAL. The Company's share of YUFI's net losses increased from \$5.8 million in fiscal year 2007 to \$6.1 million in fiscal year 2008.

During the first quarter of fiscal year 2008, the Company's Brazilian polyester operation continued its modernization plan for its facilities by abandoning four of its older machines and replacing these machines with newer machines that it purchased from the Company's domestic polyester division. As a result, the Company recognized a \$0.5 million non-cash impairment charge on the older machines.

During the second quarter of fiscal year 2008, the Company evaluated the carrying value of the remaining machinery and equipment at Dillon. The Company sold several machines to a foreign subsidiary and in addition transferred several other machines to its Yadkinville, North Carolina facility. Six of the remaining machines were leased under an operating lease to a manufacturer in Mexico at a fair market value substantially less than their carrying value. The last five remaining machines were scrapped for spare parts inventory. These eleven machines were written down to fair market value determined by the lease; and as a result, the Company recorded a non-cash impairment charge of \$1.6 million in the second quarter of fiscal year 2008. The adjusted net book value will be depreciated over a two year period which is consistent with the life of the lease.

In addition, during the second quarter of fiscal year 2008, the Company began negotiations with a third party to sell its Kinston, North Carolina polyester facility. Based on appraisals, management concluded that the carrying value of the real estate exceeded its fair value. Accordingly, the Company recorded \$0.7 million in non-cash impairment charges.

During fiscal year 2007, the Company recorded \$16.7 million in impairment charges related to write downs of long-lived assets. See the discussion under the caption "Review of Fiscal Year 2007 Results of Operations (52 Weeks) Compared to Fiscal 2006 (52 Weeks)" below.

During the first quarter of fiscal year 2008, the Company determined that a review of the carrying value of its investment in USTF was necessary as a result of sales negotiations. As a result of this review, the Company determined that the carrying value exceeded its fair value. Accordingly, a non-cash impairment charge of \$4.5 million was recorded in the first quarter of fiscal year 2008.

The Company announced a proposed agreement to sell its 50% ownership interest in YUFI to its partner, YCFC, for \$10.0 million, pending final negotiation and execution of definitive agreements and the receipt of Chinese regulatory approvals. In connection with a review of the YUFI value during negotiations related to the sale, the Company initiated a review of the carrying value of its investment in YUFI in accordance with APB 18. As a result of this review, the Company determined that the carrying value of its investment in YUFI exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of \$6.4 million in the fourth quarter of fiscal year 2008. The Company does not anticipate that the impairment charge will result in any future cash expenditures.

During the fourth quarter of fiscal year 2007, the Company recorded a non-cash impairment charge of \$84.7 million related to its investment in PAL. See the discussion under the caption "Review of Fiscal Year 2007 Results of Operations (52 Weeks) Compared to Fiscal 2006 (52 Weeks)" below.

The Company has established a valuation allowance to completely offset its U.S. net deferred tax asset. The valuation allowance is primarily attributable to investments. The Company's realization of other deferred tax assets is based on future taxable income within a certain time period and is therefore uncertain. Although the Company has reported cumulative losses for both financial and U.S. tax reporting purposes over the last several years, it has determined that deferred tax assets not offset by the valuation allowance are more likely than not to be realized primarily based on expected future reversals of deferred tax liabilities, particularly those related to property, plant and equipment, the accumulated depreciation for which is expected to reverse approximately \$61.0 million through fiscal year 2018.



Actual future taxable income may vary significantly from management's projections due to the many complex judgments and significant estimations involved, which may result in adjustments to the valuation allowance which may impact the net deferred tax liability and provision for income taxes.

The valuation allowance decreased by approximately \$12.0 million in fiscal year 2008 compared to an increase of approximately \$22.6 million in fiscal year 2007. The net decrease in fiscal year 2008 resulted primarily from a reduction in federal net operating loss carryforwards and the expiration of state income tax credit carryforwards.

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The net increase in fiscal year 2007 resulted primarily from investment and real property impairment charges that could result in nondeductible capital losses. The net impact of changes in the valuation allowance to the effective tax rate reconciliation for fiscal years 2008 and 2007 were (26.0)% and 18.0%, respectively. The percentage decrease from fiscal year 2007 to fiscal year 2008 was primarily attributable to reductions in net operating loss carryforwards, North Carolina income tax credit carryforwards and estimated capital losses related to certain fixed assets.

The Company recognized an income tax benefit in fiscal year 2008 at a 36.1% effective tax rate compared to a benefit of 15.7% in fiscal year 2007. The fiscal year 2008 effective rate was positively impacted by the change in the deferred tax valuation allowance partially offset by negative impacts from foreign losses for which no tax benefit was recognized, expiration of North Carolina income tax credit carryforwards and tax expense not previously accrued for repatriation of foreign earnings. The fiscal year 2007 effective rate was negatively impacted by the change in the deferred tax valuation allowance.

In fiscal year 2008, the Company accrued federal income tax on approximately \$5 million of dividends expected to be distributed from a foreign subsidiary in future periods and approximately \$0.3 million of dividends distributed from a foreign subsidiary in fiscal year 2008. In fiscal year 2007, the Company accrued federal income tax on approximately \$9.2 million of dividends distributed from a foreign subsidiary in fiscal year 2008. Federal income tax on dividends was accrued in a fiscal year prior to distribution when previously unremitted foreign earnings were no longer deemed to be indefinitely reinvested outside the U.S.

On June 25, 2007, the Company adopted Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes ( FIN 48 ). There was a \$0.2 million cumulative adjustment to retained earnings upon adoption of FIN 48 in fiscal year 2008.

In late July 2007, the Company began repatriating dividends of approximately \$9.2 million from its Brazilian manufacturing operation. Federal income tax on the dividends was accrued during fiscal year 2007 since the previously unrepatriated foreign earnings were no longer deemed to be indefinitely reinvested outside the U.S.

*Polyester Operations*

The following table sets forth the segment operating gain (loss) components for the polyester segment for fiscal year 2008 and fiscal year 2007. The table also sets forth the percent to net sales and the percentage increase or decrease over the prior year:

	Fiscal Year 2008		Fiscal Year 2007		% Inc. (Dec.)
		% to		% to	
		Net Sales		Net Sales	
	(Amounts in thousands, except percentages)				
Net sales	\$ 530,567	100.0	\$ 530,092	100.0	0.1
Cost of sales	494,209	93.1	499,290	94.2	(1.0)
Selling, general and administrative expenses	40,606	7.7	35,704	6.7	13.7
Restructuring charges (recovery)	3,818	0.7	(103)		
Write down of long-lived assets	2,780	0.5	6,930	1.3	(59.9)
Segment operating loss	\$ (10,846)	(2.0)	\$ (11,729)	(2.2)	(7.5)

Fiscal year 2008 polyester net sales increased \$0.5 million, or 0.1% compared to fiscal year 2007. The Company's polyester segment sales volumes decreased approximately 8.9% while the weighted-average selling price increased approximately 9.0%.

Domestically, polyester sales volumes decreased 11.3% while average unit prices increased approximately 7.0%. The decline in domestic polyester sales volume was due to the market decline and decreases in POY sales resulting from the shutdown of the Company's Kinston operations, which was partially offset by increases in textured and twisted volumes resulting from the Dillon acquisition. The increase in domestic average sales price reflects changes in sales mix and price increases driven by higher material costs. Sales from the Company's Brazilian texturing operation, on a local currency basis, decreased 2.0% over fiscal year 2007. The Brazilian texturing operation predominately purchased all of its raw materials in U.S. dollars. The impact on net sales from this operation on a U.S. dollar basis as a result of the change in currency exchange rate was an increase of

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\$19.7 million in fiscal year 2008. The Company's international polyester pre-tax results of operations for the polyester segment's Brazilian location increased \$3.1 million in fiscal year 2008 over fiscal year 2007, or 53.9%.

Gross profit on sales for the polyester operations increased \$5.6 million, or 18.0%, over fiscal year 2007, and gross margin (gross profit as a percentage of net sales) increased from 5.8% in fiscal year 2007 to 6.9% in fiscal year 2008. The increase from the prior year was primarily attributable to an increase in the per unit conversion margin and a decrease in the per unit converting cost. Although fiber cost increased as a percent of net sales from 53.1% in fiscal year 2007 to 56.4% in fiscal year 2008, fixed and variable manufacturing costs decreased as a percentage of net sales from 39.4% in fiscal year 2007 to 35.2% in fiscal year 2008. The impact of the surge in crude oil prices since the beginning of fiscal year 2008 has created a spike in polyester material prices. Polyester polymer costs during June 2008 were 17% higher as compared to same period last year.

SG&A expenses for the polyester segment increased \$4.9 million for fiscal year 2008 compared to fiscal year 2007. The percentage of SG&A costs allocated to each segment is determined at the beginning of every year based on specific cost drivers.

The polyester segment net sales, gross profit and SG&A expenses as a percentage of total consolidated amounts were 74.4%, 71.9% and 85.4% for fiscal year 2008 compared to 76.8%, 80.2% and 79.5% for fiscal year 2007, respectively.

***Nylon Operations***

The following table sets forth the segment operating profit (loss) components for the nylon segment for fiscal year 2008 and fiscal year 2007. The table also sets forth the percent to net sales and the percentage increase or decrease over the prior year:

	<b>Fiscal Year 2008</b>		<b>Fiscal Year 2007</b>		
		<b>% to</b>		<b>% to</b>	<b>% Inc.</b>
		<b>Net Sales</b>		<b>Net Sales</b>	<b>(Dec.)</b>
		<b>(Amounts in thousands, except percentages)</b>			
Net sales	\$ 182,779	100.0	\$ 160,216	100.0	14.1
Cost of sales	168,555	92.2	152,621	95.3	10.4
Selling, general and administrative expenses	6,966	3.8	9,182	5.7	(24.1)
Restructuring charges (recoveries)	209	0.1	(54)		
Write down of long-lived assets			8,601	5.4	
Segment operating profit (loss)	\$ 7,049	3.9	\$ (10,134)	(6.4)	(169.6)

Fiscal year 2008 nylon net sales increased \$22.6 million, or 14.1% while the weighted-average selling price decreased 0.4% compared to fiscal year 2007. Net sales increased for fiscal year 2008 as a result of the 14.5% improvement in unit sales volumes due to changing consumer preferences and fashion trends for sheer hosiery and shape-wear products.

Gross profit for the nylon segment increased \$6.6 million, or 87.3% in fiscal year 2008 and gross margin (gross profit as a percentage of net sales) increased from 4.7% in fiscal year 2007 to 7.8% in fiscal year 2008. This was primarily

attributable to improved sales volume and a decrease in per unit converting costs. Fiber costs increased as a percent of net sales from 60.3% in fiscal year 2007 to 62.2% in fiscal year 2008. Fixed and variable manufacturing costs decreased as a percentage of sales from 33.0% in fiscal year 2007 to 28.6% in fiscal year 2008. As discussed in the Polyester section above, the increases in crude oil prices during fiscal year 2008 have driven higher nylon raw material prices. Nylon polymer costs during June 2008 were 12% higher as compared to the same period last year.

SG&A expenses for the nylon segment decreased \$2.2 million in fiscal year 2008. The percentage of SG&A costs allocated to each segment is determined at the beginning of every year based on specific cost drivers.

The nylon segment net sales, gross profit and SG&A expenses as a percentage of total consolidated amounts were 25.6%, 28.1% and 14.6% for fiscal year 2008 compared to 23.2%, 19.8% and 20.5% for fiscal year 2007, respectively.

**Table of Contents****Review of Fiscal Year 2007 Results of Operations (52 Weeks) Compared to Fiscal Year 2006 (52 Weeks)**

The following table sets forth the loss from continuing operations components for each of the Company's business segments for fiscal year 2007 and fiscal year 2006. The table also sets forth each of the segments' net sales as a percent to total net sales, the net income (loss) components as a percent to total net sales and the percentage increase or decrease of such components over the prior year:

	Fiscal Year 2007		Fiscal Year 2006		
	% to		% to		
	Total		Total		% Inc.
	(Amounts in thousands, except percentages)				
Consolidated					
Net sales					
Polyester	\$ 530,092	76.8	\$ 566,266	76.7	(6.4)
Nylon	160,216	23.2	172,399	23.3	(7.1)
Total	\$ 690,308	100.0	\$ 738,665	100.0	(6.5)
		% to		% to	
		Net		Net	
		Sales		Sales	
Cost of sales					
Polyester	\$ 499,290	72.3	\$ 525,170	71.1	(4.9)
Nylon	152,621	22.1	167,055	22.6	(8.6)
Total	651,911	94.4	692,225	93.7	(5.8)
Selling, general and administrative					
Polyester	35,704	5.2	32,771	4.4	8.9
Nylon	9,182	1.3	8,763	1.2	4.8
Total	44,886	6.5	41,534	5.6	8.1
Restructuring charges (recovery)					
Polyester	(103)		533	0.1	
Nylon	(54)		(787)	(0.1)	
Total	(157)		(254)	0.0	
Write down of long-lived assets					
Polyester	6,930	1.0	51		
Nylon	8,601	1.2	2,315	0.3	271.5
Corporate	85,942	12.5			
Total	101,473	14.7	2,366	0.3	
Other (income) expenses	31,221	4.5	14,860	2.0	110.1

Loss from continuing operations before income taxes	(139,026)	(20.1)	(12,066)	(1.6)	1,052.2
Provision (benefit) for income taxes	(21,769)	(3.1)	301	(0.1)	(7,332.2)
Loss from continuing operations	(117,257)	(17.0)	(12,367)	(1.7)	848.1
Income from discontinued operations, net of tax	1,465	0.2	360	0.1	306.9
Net loss	\$ (115,792)	(16.8)	\$ (12,007)	(1.6)	864.4

For the fiscal year 2007, the Company recognized a \$139.0 million loss from continuing operations before income taxes which was a \$127.0 million decline from the prior year. The decline in continuing operations was primarily attributable to increased charges of \$99.1 million for asset impairments, decreased polyester and nylon gross profits, and increased SG&A expenses. During fiscal years 2007 and 2006, raw material prices increased for polyester ingredients in POY.

Consolidated net sales from continuing operations decreased \$48.4 million, or 6.5%, for the current fiscal year. For the fiscal year 2007, the weighted average price per pound for the Company's products on a consolidated basis

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increased 3.7% compared to the prior year. Unit volume from continuing operations decreased 10.3% for the fiscal year partially due to management's decision to focus on profitable business as well as market conditions.

At the segment level, polyester dollar net sales accounted for 76.8% in fiscal year 2007 compared to 76.7% in fiscal year 2006. Nylon accounted for 23.2% of dollar net sales for fiscal year 2007 compared to 23.3% for the prior fiscal year.

Gross profit from continuing operations decreased \$8.0 million to \$38.4 million for fiscal year 2007. This decrease is primarily attributable to lower volumes in polyester and nylon segments and to lower conversion margins for the polyester segment.

SG&A expenses increased by 8.1% or \$3.4 million for fiscal year 2007. The increase in SG&A expenses was due primarily to \$2.1 million for amortization expenses, \$1.5 million for sales and service fees related to the Dillon acquisition, and \$3.2 million for increased stock-based and deferred compensation which were offset by lower fringe benefit expenses, depreciation charges, and professional fees related to cost saving efforts. SG&A related to the Company's foreign operations remained consistent with the prior year amounts.

For the fiscal year 2007, the Company recorded a \$7.2 million provision for bad debts. This compares to \$1.3 million recorded in the prior fiscal year. The increase relates to the Company's domestic operations and is primarily due to the write off of two customers who filed bankruptcy as discussed below.

On July 2, 2007, Quaker Fabric Corporation, a significant customer in the dyed business, announced that it had not met the requirements for committed borrowings under its existing lending facilities and that it would commence an orderly liquidation of its business and a sale of its assets. At the close of the Company's fiscal year 2007, the Company had net receivables of approximately \$3.2 million owed to it by Quaker Fabric. On July 3, 2007, based on its announcement and the Company's discussions with Quaker Fabric's management, the Company recorded a pre-tax bad debt charge of \$3.2 million in the fourth quarter of fiscal year 2007 which fully reserved this customer. In addition, the Company wrote down \$0.3 million of certain inventory that was manufactured specifically for Quaker Fabric that could not be sold to other customers. Quaker Fabric formally filed bankruptcy under Chapter 11 of the U.S. Bankruptcy Code on August 16, 2007.

On April 10, 2007, Joan Fabric Corporation, another customer in the dyed business, announced that it had filed a voluntary petition to reorganize under Chapter 11. The Company recorded a pre-tax bad debt charge of \$2.8 million in the third quarter of fiscal year 2007, which, along with the \$2.0 million of pre-tax bad debt charges previously incurred fully reserved this customer. In addition, the Company wrote down \$0.7 million of certain inventory produced specially for Joan Fabric which the Company considered obsolete.

Interest expense increased from \$19.3 million in fiscal year 2006 to \$25.5 million in fiscal year 2007. The increase in interest expense is primarily due to the increased interest expense by the Company as a result of higher bond interest rates relating to the 2014 bonds. The Company had \$36.0 million of outstanding borrowings under its amended revolving credit facility as of June 24, 2007. The weighted average interest rate of Company debt outstanding at June 24, 2007 and June 25, 2006 was 10.8% and 6.9%, respectively. Interest income decreased from \$6.3 million in fiscal year 2006 to \$3.2 million in fiscal year 2007 which was due to the utilization of cash as a part of the tender of the 2008 bonds in May 2006.

Other (income) expense increased from \$1.5 million of income in fiscal year 2006 to \$2.6 million of income in fiscal year 2007. The following table shows the components of other (income) expense:



	<b>Fiscal Years Ended</b>	
	<b>June 24, 2007</b>	<b>June 25, 2006</b>
	<b>(Amounts in thousands)</b>	
Net gains on sales of fixed assets	\$ (1,225)	\$ (940)
Currency (gains) losses	(393)	813
Rental income	(106)	(319)
Technology fees from China joint venture	(1,226)	(724)
Other, net	374	(296)
	\$ (2,576)	\$ (1,466)

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Equity in the net loss of its equity affiliates, PAL, USTF, UNF, and YUFI was \$4.3 million in fiscal year 2007 compared to equity in net income of \$0.8 million in fiscal year 2006. The decrease in earnings is primarily attributable to its investment in PAL and YUFI as discussed above. The Company's share of PAL's earnings decreased from a \$3.8 million income in fiscal year 2006 to \$2.5 million of income in fiscal year 2007. Higher raw material prices were the main reason for the lower income in fiscal year 2007. PAL realized net losses on cotton futures contracts of \$1.4 million for fiscal year 2006 compared to \$0.1 million in realized net losses for fiscal year 2007. The Company expects to continue to receive cash distributions from PAL. The Company's share of YUFI's net losses increased from \$3.2 million in fiscal year 2006 to \$5.8 million in fiscal year 2007.

On October 26, 2006 the Company announced its intent to sell a manufacturing facility in Reidsville, North Carolina that the Company had leased to a tenant since 1999. The lease expired in October 2006 and the Company decided to sell the property upon expiration of the lease. Pursuant to this determination, the Company received appraisals relating to the property and performed an impairment review in accordance with SFAS No. 144. The Company evaluated the recoverability of the long-lived asset and determined that the carrying amount of the property exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of \$1.2 million during the first quarter of fiscal year 2007, which included \$0.1 million in estimated selling costs that will be paid from the proceeds of the sale when it occurs.

In November 2006, the Company's Brazilian operation committed to a plan to modernize its facilities by replacing ten of its older machines with newer machines purchased from the domestic polyester division. These machine purchases allow the Brazilian facility to produce tailor made products at higher speeds resulting in lower costs and increased competitiveness. The Company recognized a \$2.0 million impairment charge on the older machines in the second quarter of fiscal year 2007 related to the book value of the machines and the related dismantling and removal costs.

The Company operated two polyester dye facilities which are located in Mayodan, North Carolina (the Mayodan facility) and Reidsville, North Carolina (the Reidsville facility). On March 22, 2007, the Company committed to a plan to idle the Mayodan facility and consolidate all of its dyed operations into the Reidsville facility. The consolidation process was completed as of June 24, 2007. The Company performed an impairment review in accordance with SFAS No. 144, and received an appraisal on the Mayodan facility which indicated that the carrying amount of the Mayodan facility exceeded its fair value. Accordingly, in the third quarter of fiscal year 2007, the Company recorded a non-cash impairment charge of \$4.4 million. Since management is not confident that a sale will occur within twelve months, the facility continues to be classified as property, plant, and equipment and not classified as part of the Assets held for sale line items in the Consolidated Balance Sheets.

During the quarter ended September 25, 2005, management decided to consolidate its domestic nylon operations to improve overall operating efficiencies. This initiative included closing Plant 1 in Madison, North Carolina and moving its operations and offices to Plant 3 in Madison, North Carolina which is the Nylon division's largest facility with approximately one million square feet of production space. As a part of the consolidation plan, three nylon facilities (the Madison facilities) were vacated and classified as held for sale later in fiscal year 2006. The Company received appraisals on the three properties, and after reviewing the reports, determined that one of the facilities carrying value exceeded its appraised value. As a result of this determination, the Company recorded a non-cash impairment charge of \$1.5 million in the first quarter of fiscal year 2006 which included \$0.2 million of estimated selling costs. During fiscal year 2007, the Company reviewed the Madison facilities as the facilities have been classified as Assets Held for Sale for a one year period and have not been sold. The Company completed its SFAS 144 review relating to the Madison facilities and recorded an additional non-cash impairment charge of \$3.0 million which included \$0.3 million in estimated selling expenses. As a result, the Company has reduced its offering price for the Madison facilities. In addition, the Madison facilities stored idle equipment relating to their operations. This equipment has also been classified as Assets Held for Sale for the past year and the Company has determined that a sale is not possible. The Company completed its SFAS 144 review and recorded a non-cash impairment charge of \$5.6 million relating to the

idle equipment and \$0.5 million relating to the facilities. The sale of Plant 1 was completed on June 19, 2007 and Plant 5 on June 25, 2007 with no further impairment charges incurred.

As a part of its fiscal year 2007 financial statement closing process, the Company initiated a review of the carrying value of its investment in PAL, in accordance with APB 18. As a result, the Company determined that the

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\$137.0 million carrying value of the Company's investment in PAL exceeded its fair value. The Company recorded a non-cash impairment charge of \$84.7 million in the fourth quarter of the Company's fiscal year 2007 based on an appraised fair value of PAL, less 25% for lack of marketability and its minority ownership percentage. The Company's investment in PAL as of June 24, 2007 was \$52.3 million.

The Company established a valuation allowance against its deferred tax assets primarily attributable to North Carolina income tax credits, investments and real property. The Company's realization of other deferred tax assets is based on future taxable income within a certain time period and is therefore uncertain. Although the Company has reported cumulative losses for both financial and U.S. tax reporting purposes over the last several years, it has determined that deferred tax assets not offset by the valuation allowance are more likely than not to be realized primarily based on expected future reversals of deferred tax liabilities, particularly those related to property, plant and equipment, the accumulated depreciation for which reversed approximately \$26.8 million in fiscal year 2008 and is expected to reverse approximately \$61.0 million through fiscal year 2018. Actual future taxable income may vary significantly from management's projections due to the many complex judgments and significant estimations involved, which may result in adjustments to the valuation allowance which may impact the net deferred tax liability and provision for income taxes.

The valuation allowance increased approximately \$22.6 million in fiscal year 2007 compared to an approximately \$1.7 million decrease in fiscal year 2006. The net increase in fiscal year 2007 resulted primarily from investment and real property impairment charges that could result in nondeductible capital losses partially offset by lower expected utilization and expiration of certain federal and state carryforwards. The net decrease in fiscal year 2006 resulted primarily from lower expected utilization and expiration of North Carolina income tax credits. The net impact of changes in the valuation allowance to the effective tax rate reconciliation for fiscal years 2007 and 2006 were 18.0% and 15.7%, respectively. The percentage increase from fiscal year 2006 to fiscal year 2007 was primarily attributable to investment and real property impairment charges.

The Company recognized an income tax benefit in fiscal year 2007 at a 15.7% effective tax rate compared to income tax expense at a 2.5% effective tax rate in fiscal year 2006. The fiscal year 2007 effective rate was negatively impacted by the change in the deferred tax valuation allowance. The fiscal year 2006 effective rate was negatively impacted by foreign losses for which no tax benefit was recognized, the change in the deferred tax valuation allowance and tax expense not previously accrued for repatriation of foreign earnings. In fiscal year 2007, the Company recognized a state income tax benefit, net of federal income tax of 3.3% compared to 12.0% in fiscal year 2006. The increase in fiscal year 2006 was primarily attributable to the pass through of \$1.2 million of state income tax credits from an equity affiliate.

With respect to repatriation of foreign earnings, the American Jobs Creation Act of 2004 (the "AJCA") created a temporary incentive for U.S. multinational corporations to repatriate accumulated income earned outside the U.S. by providing an 85% dividend received deduction for certain dividends from controlled foreign corporations. According to the AJCA, the amount of eligible repatriation was limited to \$500 million or the amount described as permanently reinvested earnings outside the U.S. in the most recent audited financial statements filed with the SEC on or before June 30, 2003. Dividends received must be reinvested in the U.S. in certain permitted uses. The Company repatriated \$31 million in fiscal year 2006 resulting from approximately \$45 million of proceeds from the liquidation of its European manufacturing operations less approximately \$30 million re-invested in YUFI as well as \$16 million of accumulated income earned by its Brazilian manufacturing operation.

In late July 2007, the Company began repatriating dividends of approximately \$9.5 million from its Brazilian manufacturing operation. These dividends do not qualify for the special AJCA deduction. Federal income tax on approximately \$9.2 million of the dividends was accrued during fiscal year 2007 since the previously unrepatriated foreign earnings were no longer deemed to be indefinitely reinvested outside the U.S.



**Table of Contents***Polyester Operations*

The following table sets forth the segment operating gain (loss) components for the polyester segment for fiscal year 2007 and fiscal year 2006. The table also sets forth the percent to net sales and the percentage increase or decrease over the prior year:

	<b>Fiscal Year 2007</b>		<b>Fiscal Year 2006</b>		
		<b>% to</b>		<b>% to</b>	<b>% Inc.</b>
		<b>Net Sales</b>		<b>Net Sales</b>	<b>(Dec.)</b>
		<b>(Amounts in thousands, except percentages)</b>			
Net sales	\$ 530,092	100.0	\$ 566,266	100.0	(6.4)
Cost of sales	499,290	94.2	525,170	92.7	(4.9)
Selling, general and administrative expenses	35,704	6.7	32,771	5.8	8.9
Restructuring charges (recovery)	(103)		533	0.1	(119.3)
Write down of long-lived assets	6,930	1.3	51		
Segment operating income (loss)	\$ (11,729)	(2.2)	\$ 7,741	1.4	(251.5)

Fiscal year 2007 polyester net sales decreased \$36.2 million, or 6.4% compared to fiscal year 2006. Notwithstanding the positive impact that the Dillon acquisition had on sales, the Company's polyester segment sales volumes decreased approximately 10.4% while the weighted-average unit prices increased approximately 4.0%.

Domestically, polyester sales volumes decreased 12.2% while average unit prices increased approximately 2.9%. Sales from the Company's Brazilian texturing operation, on a local currency basis, increased 4.8% over fiscal year 2006 due primarily to the increase in valuation of the U.S. dollar against the Brazilian Real. The Brazilian texturing operation predominately purchased all of its fiber in U.S. dollars. The impact on net sales from this operation on a U.S. dollar basis as a result of the change in currency exchange rate was an increase of \$6.8 million in fiscal year 2007. The Company's international polyester pre-tax results of operations for the polyester segment's Brazilian location increased \$0.4 million in fiscal year 2007 over fiscal year 2006.

Gross profit on sales for the polyester operations decreased \$10.3 million, or 25.0%, over fiscal year 2006, and gross margin (gross profit as a percentage of net sales) decreased from 7.3% in fiscal year 2006 to 5.8% in fiscal year 2007. The decrease from the prior year is primarily attributable to increased converting costs on a per pound basis in the POY business. In addition, fiber cost increased as a percent of net sales from 52.0% in fiscal year 2006 to 53.1% in fiscal year 2007. Fixed and variable manufacturing costs increased as a percentage of net sales from 38.9% in fiscal year 2006 to 39.4% in fiscal year 2007.

SG&A expenses for the polyester segment increased \$2.9 million from fiscal years 2006 to 2007. While the methodology to allocate domestic SG&A costs remained consistent between fiscal year 2006 and fiscal year 2007, the percentage of such costs allocated to each segment are determined at the beginning of every year based on specific cost drivers. The increase in SG&A expenses for the polyester segment relates to the additional expenses and sales service expenses both related to the Dillon acquisition as well as stock-based and deferred compensation offset by reductions in overall expenses related to cost saving efforts as discussed above in the consolidate section.

The polyester segment net sales, gross profit and SG&A expenses as a percentage of total consolidated amounts were 76.8%, 80.2% and 79.5% for fiscal year 2007 compared to 76.7%, 88.5% and 78.9% for fiscal year 2006, respectively.

**Table of Contents***Nylon Operations*

The following table sets forth the segment operating loss components for the nylon segment for fiscal year 2007 and fiscal year 2006. The table also sets forth the percent to net sales and the percentage increase or decrease over fiscal year 2006:

	<b>Fiscal Year 2007</b>		<b>Fiscal Year 2006</b>		<b>% Inc. (Dec.)</b>
		<b>% to Net Sales</b>		<b>% to Net Sales</b>	
<b>(Amounts in thousands, except percentages)</b>					
Net sales	\$ 160,216	100.0	\$ 172,399	100.0	(7.1)
Cost of sales	152,621	95.2	167,055	96.9	(8.6)
Selling, general and administrative expenses	9,182	5.7	8,763	5.1	4.8
Restructuring recoveries	(54)		(787)	(0.5)	(93.1)
Write down of long-lived assets	8,601	5.4	2,315	1.3	271.5
Segment operating loss	\$ (10,134)	(6.3)	\$ (4,947)	(2.8)	(104.9)

Fiscal year 2007 nylon net sales decreased \$12.2 million, or 7.1% compared to fiscal year 2006. Unit volumes for fiscal year 2007 decreased 8.8% while the average selling price increased 1.7%.

Gross profit increased \$2.3 million, or 42.1% in fiscal year 2007 and gross margin increased from 3.1% in fiscal year 2006 to 4.7% in fiscal year 2007. This was primarily attributable to higher conversion margins, cost savings associated with closing a central distribution center, and the closing of two nylon manufacturing facilities in fiscal year 2006. Fiber costs increased from 59.1% of net sales in fiscal year 2006 to 60.3% of net sales in fiscal year 2007. Fixed and variable manufacturing costs decreased as a percentage of sales from 35.5% in fiscal year 2006 to 33.0% in fiscal year 2007.

SG&A expenses for the nylon segment increased \$0.4 million in fiscal year 2007. The increase in SG&A expenses for the nylon segment relates to additional stock-based and deferred compensation offset by reductions in overall expenses related to cost saving efforts.

The nylon segment net sales, gross profit and SG&A expenses as a percentage of total consolidated amounts were 23.2%, 19.8% and 20.5% for fiscal year 2007 compared to 23.3%, 11.5% and 21.1% for fiscal year 2006, respectively.

**Liquidity and Capital Resources***Liquidity Assessment*

The Company's primary capital requirements are for working capital, capital expenditures and service of indebtedness. Historically the Company has met its working capital and capital maintenance requirements from its operations. Asset acquisitions and joint venture investments have been financed by asset sales proceeds, cash reserves and borrowing under its financing agreements discussed below.



In addition to its normal operating cash and working capital requirements and service of its indebtedness, the Company will also require cash to fund capital expenditures and enable cost reductions through restructuring projects as follows:

*Capital Expenditures.* The Company estimates its fiscal year 2009 capital expenditures will be within a range of \$14.0 million to \$16.0 million. The Company has restricted cash from the sale of certain nonproductive assets reserved for domestic capital expenditures in accordance its long-term borrowing agreements. As of June 29, 2008, the Company had \$18.2 million in restricted cash funds available for domestic capital expenditures. The Company's capital expenditures primarily relate to maintenance of existing assets and equipment and technology upgrades. Management continuously evaluates opportunities to further reduce production costs, and the Company may incur additional capital expenditures from time to time as it pursues new opportunities for further cost reductions.

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*Joint Venture Investments.* During fiscal year 2008, the Company received \$4.5 million in dividend distributions from its joint ventures. Although historically over the past five years the Company has received distributions from certain of its joint ventures, there is no guarantee that it will continue to receive distributions in the future. The Company may from time to time increase its interest in its joint ventures, sell its interest in its joint ventures, invest in new joint ventures or transfer idle equipment to its joint ventures.

On July 31, 2008, the Company announced a proposed agreement to sell its 50% ownership interest in YUFI to its partner, YCFC, for \$10.0 million, pending final negotiation and execution of definitive agreements and the receipt of Chinese regulatory approvals, although no assurance can be given in this regard. In connection with a review of the YUFI value during negotiations related to the sale, the Company initiated a review of the carrying value of its investment in YUFI in accordance with APB 18. As a result of this review, the Company determined that the carrying value of its investment in YUFI exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of \$6.4 million in the fourth quarter of fiscal year 2008. The Company does not anticipate that the impairment charge will result in any future cash expenditures.

The Company's management has decided that a fundamental change in its approach was required to maximize its earnings and growth opportunities in the Chinese market. Accordingly, the Company formed Unifi Textiles (Suzhou) Company, Ltd. ( UTSC ). The Company expects UTSC to be operational during the second quarter of fiscal year 2009 and it expects to invest between approximately \$3.0 million to \$5.0 million for initial startup costs and working capital requirements for UTSC.

***Cash Provided by Continuing Operations***

Although the Company had a net loss of \$16.2 million in fiscal year 2008, the Company generated \$13.7 million of cash from continuing operations in fiscal year 2008 compared to \$10.6 million for fiscal year 2007. The fiscal year 2008 net loss was adjusted positively for non-cash income and expense items such as depreciation and amortization of \$41.6 million, a decrease in inventories of \$14.1 million, the impairment charge related to equity affiliates of \$10.9 million, restructuring charges of \$4.0 million, income from unconsolidated equity affiliates net of distributions of \$3.1 million, fixed asset impairment charges of \$2.8 million, prepaid expenses of \$1.7 million, stock based compensation expense of \$1.0 million, increases in income taxes of \$0.4 million, and provision for bad debt of \$0.2 million, offset by decreases in reductions in accounts payable and accrued expenses of \$21.8 million, decreases in deferred taxes of \$15.0 million, increases in accounts receivable of \$5.2 million, gains from the sale of capital assets of \$4.0 million, income from discontinued operations of \$3.2 million, and decreases in other noncurrent liabilities of \$0.7 million.

Cash received from customers increased from \$689.6 million in fiscal year 2007 to \$704.1 million in fiscal year 2008 primarily due to higher net sales which are primarily attributable to increases in nylon sales volumes. Payments for cost of goods sold increased from \$511.2 million in 2007 to \$535.2 million in 2008 primarily as a result of increased fiber costs. Salaries and wages payments decreased from \$130.3 million to \$116.3 million while SG&A payments decreased from \$21.3 million to \$17.2 million when comparing fiscal year 2007 to fiscal year 2008 primarily due to the Company's reorganization plans. Interest payments increased from \$23.3 million in fiscal year 2007 to \$25.3 million in fiscal year 2008 primarily due to the higher interest rates on the revolver and Libor rate loans. Restructuring and severance payments were \$1.0 million for fiscal year 2007 compared to \$9.4 million for fiscal year 2008. Taxes paid by the Company increased from \$2.7 million to \$4.1 million primarily due to the timing of tax payments made by its Brazilian subsidiary. The Company sold nitrogen credits netting proceeds of \$1.6 million in fiscal year 2008 related to the closure of Kinston and received cash dividends of \$4.5 million as a result of higher profits for PAL. Other cash from operations was derived from miscellaneous items other income (expense) items, interest income and positive foreign currency effects on working capital.

Although the Company had a net loss of \$115.8 million in fiscal year 2007, the Company generated \$10.6 million of cash from continuing operations in fiscal year 2007 compared to \$28.5 million for fiscal year 2006. The fiscal year 2007 net loss was adjusted positively for non-cash income and expense items such as the impairment charge related to PAL of \$84.7 million, depreciation and amortization of \$44.9 million, fixed asset impairment charges of \$16.7 million, a provision for bad debt of \$7.2 million, losses from unconsolidated equity affiliates of \$7.0 million, a decrease in inventories of \$5.6 million, stock based compensation of \$1.7 million,

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deferred compensation of \$1.6 million, and prepaid expenses of \$0.2 million, and negatively for decreases in deferred taxes of \$23.7 million, reductions in accounts payable and accrued expenses of \$12.1 million, increases in accounts receivable of \$2.5 million, income from discontinued operations of \$1.5 million, gains from the sale of capital assets of \$1.2 million, decreases in income taxes of \$1.1 million, increases in other assets of \$0.9 million, and restructuring recoveries of \$0.2 million.

Cash received from customers decreased from \$752.0 million in fiscal year 2006 to \$689.6 million in fiscal year 2007 primarily due to a decline in both polyester and nylon sales volumes. Payments for cost of goods sold decreased from \$552.2 million in 2006 to \$511.2 million in 2007 primarily as a result of decreased sales. While payments for salaries and wages remained stable, SG&A payments increased from \$17.9 million to \$21.3 million in when comparing fiscal year 2006 to fiscal year 2007. Interest payments increased from \$22.6 million in fiscal year 2006 to \$23.3 million in fiscal year 2007 primarily due to the higher interest rates on the revolver. Taxes paid by the Company decreased from \$3.2 million to \$2.7 million primarily due to the income generated from the Company's Brazilian subsidiary. The Company received cash dividends of \$2.7 million as a result of higher profits for PAL compared to 2006. Other cash from operations was derived from miscellaneous items such as other income (expense), interest income and currency gains.

Working capital decreased from \$194.7 million at June 24, 2007 to \$185.3 million at June 29, 2008 due to decreases in cash of \$19.8 million, inventory of \$9.4 million, deferred income taxes of \$7.6 million, assets held for sale of \$3.7 million, other current assets of \$1.2 million, and increases in income tax payable of \$0.4 million offset by decreases in accounts payables and accruals of \$19.7 million, increases in restricted cash of \$2.2 million, increases in accounts receivable of \$9.3 million, and decreases in current maturities of long-term debt of \$1.4 million.

The Company is expecting cash from operations to improve in fiscal year 2009. While sales are expected to remain flat, gross margins should continue to improve due to reduced manufacturing costs and the growth in sales related to PVA products. Cash interest will decrease due to the reduction of borrowings under the revolver, originally used to finance the purchase of the Dillon Yarn Corporation assets in January 2007.

### ***Cash Used in Investing Activities and Financing Activities***

The Company utilized \$1.6 million for net investing activities and utilized \$35.0 million in net financing activities during fiscal year 2008. The primary cash expenditures during fiscal year 2008 included \$34.3 million net for payments of the credit line revolver, \$14.2 million for restricted cash, \$12.8 million for capital expenditures, \$1.1 million of acquisitions, \$1.1 million for other financing activities, \$0.2 million of split dollar life insurance premiums and \$0.1 million of other investing activities offset by \$17.8 million from the proceeds from the sale of capital assets, \$8.7 million from proceeds from the sale of equity affiliate, \$0.4 million from issuance of stock, and \$0.3 million from collection of notes receivable. Related to the sales of capital assets, the Company sold several properties totaling 18.8 million square feet. When this total square footage is adjusted down for partial sales and nonproductive assets, the average selling price calculates to \$9.81 per square foot.

The Company utilized \$43.5 million for net investing activities and provided \$35.9 million in net financing activities during fiscal year 2007. For fiscal year 2006, the Company utilized \$27.6 million for net investing activities and \$90.2 million for net financing activities. The primary cash expenditures during fiscal year 2007 included \$97.0 million for payment of the credit line revolver, \$42.2 million for the Dillon asset acquisition, \$7.8 million for capital expenditures, \$4.0 million for restricted cash, \$0.9 million for additional acquisition related expenses, \$0.6 million for the payment of sale leaseback obligations, \$0.5 million for issuance and debt refinancing costs, and \$0.2 million of split dollar life insurance premiums, offset by \$133.0 million in proceeds from borrowings on the credit line revolver, \$5.0 million from proceeds from the sale of capital assets, \$3.6 million from return of capital from equity affiliates, \$1.8 million from split dollar life insurance surrender proceeds, \$1.3 million from collection of notes

receivable, and \$0.9 million, net of other investing activities. Related to the sales of capital assets, the Company sold real property totaling 4.9 million square feet for an average selling price of \$7.78 per square foot.

The Company utilized \$27.6 million for net investing activities and \$90.2 million in net financing activities during fiscal year 2006. The primary cash expenditures during fiscal year 2006 included \$248.7 million for payment

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of the 2008 notes, \$30.6 million for its investment in YUFI, \$24.4 million for early payment of notes payable, \$12.0 million for capital expenditures and \$8.0 million for issuance and debt refinancing costs, offset by \$190.0 million in proceeds from the issuance of the 2014 notes, \$10.1 million in proceeds from the sale of capital assets, \$2.7 million in decreased restricted cash, \$1.8 million in proceeds from life insurance, \$0.9 million, net of other financing activities, and \$0.4 million, net of other investing activities.

The Company's ability to meet its debt service obligations and reduce its total debt will depend upon its ability to generate cash in the future which, in turn, will be subject to general economic, financial, business, competitive, legislative, regulatory and other conditions, many of which are beyond its control. The Company may not be able to generate sufficient cash flow from operations and future borrowings may not be available to the Company under its amended revolving credit facility in an amount sufficient to enable it to repay its debt or to fund its other liquidity needs. If its future cash flow from operations and other capital resources are insufficient to pay its obligations as they mature or to fund its liquidity needs, the Company may be forced to reduce or delay its business activities and capital expenditures, sell assets, obtain additional debt or equity capital or restructure or refinance all or a portion of its debt on or before maturity. The Company may not be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In addition, the terms of its existing and future indebtedness, including the 2014 notes and its amended revolving credit facility, may limit its ability to pursue any of these alternatives. See Item 1A Risk Factors. The Company will require a significant amount of cash to service its indebtedness, and its ability to generate cash depends on many factors beyond its control. Some risks that could adversely affect its ability to meet its debt service obligations include, but are not limited to, intense domestic and foreign competition in its industry, general domestic and international economic conditions, changes in currency exchange rates, interest and inflation rates, the financial condition or its customers and the operating performance of joint ventures, alliances and other equity investments.

### *Other Factors Affecting Liquidity*

*Asset Sales.* Under the terms of the Company's debt agreements, the Company has granted liens to the lenders on substantially all of its assets ( Collateral ). Further, the debt agreements place restrictions on the Company's ability to dispose of certain assets which do not qualify as Collateral ( Non-Collateral ). Pursuant to the debt agreements the Company is restricted from selling or otherwise disposing of either its Collateral or its Non-Collateral, subject to certain exceptions, the most notably, ordinary course inventory sales and sales of assets having a fair market value of less than \$2.0 million.

As of June 29, 2008, the Company has \$4.1 million of assets held for sale, which the Company believes are probable to be sold during fiscal year 2009. Included in assets held for sale are the remaining assets at the Kinston site with a carrying value of \$1.6 million that would be considered an Asset Sale of Collateral. Also included in assets held for sale is an idle facility located in Yadkinville, North Carolina and the related equipment with a carrying value of \$2.5 million. The Company has listed for sale and expects to receive net proceeds of approximately \$7.0 million for the 380,000 square foot facility in Yadkinville and such sale will be a sale of Non-Collateral. However, there can be no assurances that a sale will occur.

In addition to the proceeds from assets held for sale, the Company announced on July 31, 2008, its intentions to exit the equity investments in YUFI by selling its 50% interest to its partner, YCFC. The Company and its partner have reached a tentative agreement for the sale at a price of \$10.0 million, subject to pending final negotiation and execution of definitive agreements and internal and Chinese regulatory approvals. The sale of this equity interest will be a sale of Non-Collateral under the terms of the Company's debt agreements.

The Indenture governs the sale of both Collateral and Non-Collateral and the use of sales proceeds. The Company may not sell Collateral unless it satisfies four requirements. They are:

1. The Company must receive fair market value for the Collateral sold or disposed of;
2. Fair market value must be certified by the Company's Chief Executive Officer or Chief Financial Officer and for sales of Collateral in excess of \$5.0 million, by the Company's Board of Directors;
3. At least 75% of the consideration for the sale of the Collateral must be in the form of cash or cash equivalents and 100% of the proceeds must be deposited by the Company into a specified account designated under the Indenture (the Collateral Account ); and

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4. Any remaining consideration from an asset sale that is not cash or cash equivalents must be pledged as Collateral.

Within 360 days after the deposit of proceeds from the sale of Collateral into the Collateral Account, the Company may invest the proceeds in certain other assets, such as capital expenditures or certain permitted capital investments ( Other Assets ). Any proceeds from the sale of Collateral that are not applied or invested as set forth above, shall constitute excess proceeds ( Excess Proceeds ).

Once Excess Proceeds from sales of Collateral exceed \$10.0 million, the Company must make an offer, no later than 365 days after such sale of Collateral to all holders of the Company's notes due May 15, 2014 (the 2014 Notes ) to repurchase such 2014 Notes at par ( Collateral Sale Offer ). The Collateral Sale Offer must be made to all holders to purchase 2014 Notes to the extent of the Excess Collateral Proceeds. Any Excess Proceeds remaining after the completion of a Collateral Sale Offer, may be used by the Company for any purpose not prohibited by the Indenture. As of June 29, 2008, the balance in the Collateral Account was \$18.2 million and is included as non-current restricted cash as it relates to the future purchase of long-term assets.

The Indenture also governs sales of Non-Collateral. The Company may not sell Non-Collateral unless it satisfies three specific requirements. They are:

1. The Company must receive fair market value for the Non-Collateral sold or disposed of;
2. Fair market value must be certified by the Company's Chief Executive Officer or Chief Financial Officer and for asset sales in excess of \$5.0 million, by the Company's Board of Directors; and,
3. At least 75% of the consideration for the sale of Non-Collateral must be in the form of cash or cash equivalents.

The Indenture does not require the proceeds to be deposited by the Company into the applicable Collateral Account, since the assets sold were not Collateral under the terms of the Indenture.

Within 360 days after receipt of the proceeds from a sale of Non-Collateral, the Company may utilize the proceeds in one of the following ways: 1) repay, repurchase or otherwise retire the 2014 Notes; 2) repay, repurchase or otherwise retire the 2014 Notes and other indebtedness of the Company that is *pari passu* with the Notes, on a pro rata basis; 3) repay indebtedness of certain subsidiaries identified in the Indenture, none of which are a Guarantor; or 4) acquire or invest in Other Assets. Any net proceeds from a sale of Non-Collateral that are not applied or invested as set forth above, shall constitute Excess Proceeds.

Once Excess Proceeds from sales of Non-Collateral exceed \$10.0 million the Company must make an offer, no later than 365 days after such sale of Non-Collateral to all holders of the 2014 Notes and holders of other indebtedness that is *pari passu* with the 2014 Notes to purchase or redeem the maximum amount of 2014 Notes and/or other *pari passu* indebtedness that may be purchased out of the Excess Proceeds ( Asset Sale Offer ). The purchase price of such an Asset Sale Offer must be equal to 100% of the principal amount of the 2014 Notes and such other indebtedness. Any Excess Proceeds remaining after completion of the Asset Sale Offer may be used by the Company for any purpose not prohibited by the Indenture.

*Note Repurchases from Sources Other than Sales of Collateral and Non-Collateral.* In addition to the offers to repurchase notes set forth above, the Company may also, from time to time, seek to retire or purchase its outstanding debt, in open market purchases, in privately negotiated transactions or otherwise. Such retirement or purchase of debt may come from the operating cash flows of the business or other sources and will depend upon prevailing market conditions, liquidity requirements, contractual restrictions and other factors, and the amounts involved may be material.



The preceding description is qualified in its entirety by reference to the Indenture and the 2014 Notes which are listed on the Exhibit Index of this Annual Report on Form 10-K.

*Stock Repurchase Program.* Effective July 26, 2000, the Board increased the remaining authorization to repurchase up to 10.0 million shares of its common stock. The Company purchased 1.4 million shares in fiscal year 2001 for a total of \$16.6 million. There were no significant stock repurchases in fiscal year 2002. Effective April 24, 2003, the Board re-instituted the stock repurchase program. Accordingly, the Company purchased 0.5 million

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shares in fiscal year 2003 and 1.3 million shares in fiscal year 2004. As of June 29, 2008, the Company had remaining authority to repurchase approximately 6.8 million shares of its common stock under the repurchase plan. The repurchase program was suspended in November 2003, and the Company has no immediate plans to reinstitute the program.

*Environmental Liabilities.* The land for the Kinston site was leased pursuant to a 99 year Ground Lease with DuPont. Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the EPA and DENR pursuant to the Resource Conservation and Recovery Act Corrective Action program. The Corrective Action program requires DuPont to identify all potential AOCs, assess the extent of contamination at the identified AOCs and clean them up to comply with applicable regulatory standards. Under the terms of the Ground Lease, upon completion by DuPont of required remedial action, ownership of the Kinston site was to pass to the Company and after seven years of sliding scale shared responsibility with Dupont, the Company would have had sole responsibility for future remediation requirements, if any. Effective March 20, 2008, the Company entered into a Lease Termination Agreement associated with conveyance of certain of the assets at Kinston to DuPont. This agreement terminated the Ground Lease and relieved the Company of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to the Company's period of operation of the Kinston site. However, the Company continues to own a satellite service facility acquired in the INVISTA transaction that has contamination from DuPont's operations and is monitored by DENR. This site has been remediated by DuPont and DuPont has received authority from DENR to discontinue remediation, other than natural attenuation. DuPont's duty to monitor and report to DENR will be transferred to the Company in the future, at which time DuPont must pay the Company seven years of monitoring and reporting costs and the Company will assume responsibility for any future remediation and monitoring of this site. At this time, the Company has no basis to determine if and when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same.

## ***Long-Term Debt***

On February 5, 1998, the Company issued \$250 million of senior, unsecured debt securities which bore a coupon rate of 6.5% and were scheduled to mature on February 1, 2008. On April 28, 2006, the Company commenced a tender offer for all of its outstanding 2008 notes. As a result of the tender offer, the Company incurred \$1.1 million in related fees and wrote off the remaining \$1.3 million of unamortized issuance costs and \$0.3 million of unamortized bond discounts as expense. The estimated fair value of the 2008 notes that were not tendered, based on quoted market prices as of June 24, 2007, and June 25, 2006, was approximately \$1.3 million for both years. On February 1, 2008, the Company made its final bond payment for the remaining balance of the 2008 notes and had no outstanding balance at June 29, 2008.

On May 26, 2006, the Company issued \$190 million of 11.5% senior secured notes due May 15, 2014. Interest is payable on the notes on May 15 and November 15 of each year, beginning on November 15, 2006. The 2014 notes and guarantees are secured by first-priority liens, subject to permitted liens, on substantially all of the Company's and the Company's subsidiary guarantors' assets (other than the assets securing the Company's obligations under the Company's amended revolving credit facility on a first-priority basis, which consist primarily of accounts receivable and inventory), including, but not limited to, property, plant and equipment, the capital stock of the Company's domestic subsidiaries and certain of the Company's joint ventures and up to 65% of the voting stock of the Company's first-tier foreign subsidiaries, whether now owned or hereafter acquired, except for certain excluded assets. The 2014 notes are unconditionally guaranteed on a senior, secured basis by each of the Company's existing and future restricted domestic subsidiaries. The 2014 notes and guarantees are secured by second-priority liens, subject to permitted liens, on the Company and its subsidiary guarantors' assets that will secure the notes and guarantees on a first-priority basis. The Company may redeem some or all of the 2014 notes on or after May 15, 2010. In addition, prior to May 15, 2009, the Company may redeem up to 35% of the principal amount of the 2014 notes with the proceeds of certain equity offerings. In connection with the issuance, the Company incurred \$7.3 million in professional fees and other expenses

which are being amortized to expense over the life of the 2014 notes. The estimated fair value of the 2014 notes, based on quoted market prices, at June 29, 2008 was approximately \$157.7 million. The Company may, from time to time, seek to retire or purchase its outstanding debt, including the 2014 notes in open market purchases, in privately negotiated transactions or otherwise. Such

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retirement or purchase of debt will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors, and the amounts involved may be material.

During the fourth quarter of fiscal year 2007, the Company sold property, plant and equipment secured by first-priority liens at a fair market value of \$4.5 million, netting cash proceeds after selling expenses of \$4.3 million. In accordance with the 2014 note collateral documents and the Indenture, the net proceeds of the sales of the property, plant and equipment (First Priority Collateral) were deposited into First Priority Collateral Account whereby the Company may use the restricted funds to purchase additional qualifying assets. As of June 24, 2007, the Company had utilized \$0.3 million to repurchase qualifying assets.

During fiscal year 2008, the Company sold property, plant and equipment secured by first-priority liens in the amount of \$20.6 million. In accordance with the 2014 note collateral documents and the Indenture, the proceeds from the sale of the property, plant and equipment (First Priority Collateral) were deposited into the First Priority Collateral Account whereby the Company may use the restricted funds to purchase additional qualifying assets. As of June 29, 2008, the Company had utilized \$6.4 million to repurchase qualifying assets.

Concurrently with the issuance of the 2014 notes, the Company amended its senior secured asset-based revolving credit facility to provide for a \$100 million revolving borrowing base (with an option to increase borrowing capacity up to \$150 million), to extend its maturity to 2011, and revise some of its other terms and covenants. The amended revolving credit facility is secured by first-priority liens on the Company's and its subsidiary guarantors' inventory, accounts receivable, general intangibles (other than uncertificated capital stock of subsidiaries and other persons), investment property (other than capital stock of subsidiaries and other persons), chattel paper, documents, instruments, supporting obligations, letter of credit rights, deposit accounts and other related personal property and all proceeds relating to any of the above, and by second-priority liens, subject to permitted liens, on the Company's and its subsidiary guarantors' assets securing the notes and guarantees on a first-priority basis, in each case other than certain excluded assets. The Company's ability to borrow under the Company's amended revolving credit facility is limited to a borrowing base equal to specified percentages of eligible accounts receivable and inventory and is subject to other conditions and limitations.

Borrowings under the amended revolving credit facility bear interest at rates of LIBOR plus 1.50% to 2.25% and/or prime plus 0.00% to 0.50%. The interest rate matrix is based on the Company's excess availability under the amended revolving credit facility. The amended revolving credit facility also includes a 0.25% LIBOR margin pricing reduction if the Company's fixed charge coverage ratio is greater than 1.5 to 1.0. The unused line fee under the amended revolving credit facility is 0.25% to 0.35% of the borrowing base. In connection with the refinancing, the Company incurred fees and expenses aggregating \$1.2 million, which are being amortized over the term of the amended revolving credit facility.

On January 2, 2007, the Company borrowed \$43.0 million under the amended revolving credit facility to finance the purchase of certain assets of Dillon located in Dillon, South Carolina. The borrowings were derived from LIBOR rate revolving loans. As of June 24, 2007, the Company had two separate LIBOR rate revolving loans, a \$16.0 million, 7.34%, sixty day loan and a \$20.0 million, 7.36%, ninety day loan. As of June 29, 2008, the Company had no LIBOR rate revolving loans outstanding under the credit facility. As of June 29, 2008, under the terms of the amended revolving credit facility agreement, \$3.0 million, at 5.0%, remained outstanding and the Company had borrowing availability of \$89.2 million. The Company intends to renew the loans as they come due and reduce the outstanding borrowings as cash generated from operations becomes available.

The amended revolving credit facility contains affirmative and negative customary covenants for asset based loans that restrict future borrowings and capital spending. The covenants under the amended revolving credit facility are more restrictive than those in the Indenture. Such covenants include, without limitation, restrictions and limitations on

(i) sales of assets, consolidation, merger, dissolution and the issuance of the Company's capital stock, each subsidiary guarantor and any domestic subsidiary thereof, (ii) permitted encumbrances on the Company's property, each subsidiary guarantor and any domestic subsidiary thereof, (iii) the incurrence of indebtedness by the Company, any subsidiary guarantor or any domestic subsidiary thereof, (iv) the making of loans or investments by the Company, any subsidiary guarantor or any domestic subsidiary thereof, (v) the declaration of dividends and redemptions by the Company or any subsidiary guarantor and (vi) transactions with affiliates by the Company or any subsidiary guarantor.

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Under the amended revolving credit facility, the maximum capital expenditures are limited to \$30 million per fiscal year with a 75% one-year unused carry forward. The amended revolving credit facility permits the Company to make distributions, subject to standard criteria, as long as pro forma excess availability is greater than \$25 million both before and after giving effect to such distributions, subject to certain exceptions. Under the amended revolving credit facility, acquisitions by the Company are subject to pro forma covenant compliance. If borrowing capacity is less than \$25 million at any time during the quarter, covenants will include a required minimum fixed charge coverage ratio of 1.1 to 1.0, receivables are subject to cash dominion, and annual capital expenditures are limited to \$5.0 million per year of maintenance capital expenditures.

The amended revolving credit facility replaces the December 7, 2001 \$100 million revolving bank credit facility (the Credit Agreement), as amended, which would have terminated on December 7, 2006. The Credit Agreement was secured by substantially all U.S. assets excluding manufacturing facilities and manufacturing equipment. Borrowing availability was based on eligible domestic accounts receivable and inventory. Borrowings under the Credit Agreement bore interest at rates selected periodically by the Company of LIBOR plus 1.75% to 3.00% and/or prime plus 0.25% to 1.50%. The interest rate matrix was based on the Company's leverage ratio of funded debt to EBITDA, as defined by the Credit Agreement. Under the Credit Agreement, the Company paid unused line fees ranging from 0.25% to 0.50% per annum on the unused portion of the commitment which is included in interest expense. In connection with the refinancing, the Company incurred fees and expenses aggregating \$2.0 million, which were being amortized over the term of the Credit Agreement with the balance of \$0.2 million expensed upon the May 26, 2006 refinancing.

Unifi do Brazil, receives loans from the government of the State of Minas Gerais to finance 70% of the value added taxes due by Unifi do Brazil to the State of Minas Gerais. These twenty four month loans were granted as part of a tax incentive program for producers in the State of Minas Gerais. The loans have a 2.5% origination fee and bear an effective interest rate equal to 50% of the Brazilian inflation rate, which was 10.6% on June 29, 2008. The loans are collateralized by a performance bond letter issued by a Brazilian bank, which secures the performance by Unifi do Brazil of its obligations under the loans. In return for this performance bond letter, Unifi do Brazil makes certain restricted cash deposits with the Brazilian bank in amounts equal to 100% of the loan amounts. The deposits made by Unifi do Brazil earn interest at a rate equal to approximately 100% of the Brazilian prime interest rate which was 12% as of June 29, 2008. The ability to make new borrowings under the tax incentive program ended in May 2008 and was replaced by other favorable tax incentives.

The following table summarizes the maturities of the Company's long-term debt and other noncurrent liabilities on a fiscal year basis:

<b>Balance at June 29, 2008</b>	<b>Aggregate Maturities</b>					
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Thereafter</b>
	<b>(Amounts in thousands)</b>					
\$ 214,171	\$ 9,805	\$ 9,593	\$ 3,612	\$ 292	\$ 36	\$ 190,833

The Company believes that, based on current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, including borrowings under its amended revolving credit facility, will be adequate to fund anticipated capital and other expenditures and to satisfy its working capital requirements for at least the next twelve months.



**Table of Contents****Contractual Obligations**

The Company's significant long-term obligations as of June 29, 2008 are as follows:

Description of Commitment	Total	Cash Payments Due by Period			More Than 5 Years
		Less Than 1 Year	1-3 Years	3-5 Years	
		(Amounts in thousands)			
2014 notes	\$ 190,000	\$	\$	\$	\$ 190,000
Amended credit facility	3,000		3,000		
Capital lease obligation	1,341	343	670	328	
Other long-term obligations(1)	19,830	9,462	9,535		833
Subtotal	214,171	9,805	13,205	328	190,833
Letters of credits	5,000	5,000			
Interest on long-term debt and other obligations	131,931	23,131	45,044	43,727	20,029
Operating leases	2,207	1,553	654		
Purchase obligations(2)	7,246	4,565	2,090	591	
	\$ 360,555	\$ 44,054	\$ 60,993	\$ 44,646	\$ 210,862

(1) Other long-term obligations include the Brazilian government loans and other noncurrent liabilities.

(2) Purchase obligations consist of a Dillon acquisition related sales and service agreement, a manufacturing agreement for nitrogen, and utility agreements.

**Recent Accounting Pronouncements**

In May 2008, the FASB issued Financial Accounting Standard (SFAS) No. 163 Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60. SFAS 163 clarified how SFAS No. 60 Accounting and Reporting by Insurance Enterprises applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Those clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect SFAS No. 163 to have a material effect on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 provides a hierarchical framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not expect the adoption of SFAS No. 162 will have a material effect on its consolidated financial statements.



In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 requiring enhancements to the SFAS No. 133 disclosure requirements for derivative and hedging activities. The objective of the enhanced disclosure requirement is to provide the user of financial statements with a clearer understanding of how the entity uses derivative instruments; how derivatives are accounted for; and how derivatives affect an entity's financial position, cash flows and performance. The statement applies to all derivative and hedging instruments. SFAS No. 161 is effective for all fiscal years and interim periods beginning after November 15, 2008. The Company is evaluating its current disclosures of derivative and hedging instruments and the impact SFAS No. 161 will have on its future disclosures.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations-Revised. This new standard replaces SFAS No. 141 Business Combinations. SFAS No. 141R requires that the acquisition method of accounting, instead of the purchase method, be applied to all business combinations and that an acquirer is identified in the process. The statement requires that fair market value be used to recognize assets and assumed

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liabilities instead of the cost allocation method where the costs of an acquisition are allocated to individual assets based on their estimated fair values. Goodwill would be calculated as the excess purchase price over the fair value of the assets acquired; however, negative goodwill will be recognized immediately as a gain instead of being allocated to individual assets acquired. Costs of the acquisition will be recognized separately from the business combination. The end result is that the statement improves the comparability, relevance and completeness of assets acquired and liabilities assumed in a business combination. SFAS No. 141R is effective for business combinations which occur in fiscal years beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51 . This new standard requires that ownership interests held by parties other than the parent be presented separately within equity in the statement of financial position; the amount of consolidated net income be clearly identified and presented on the statements of income; all transactions resulting in a change of ownership interest whereby the parent retains control to be accounted for as equity transactions; and when controlling interest is not retained by the parent, any retained equity investment will be valued at fair market value with a gain or loss being recognized on the transaction. SFAS No. 160 is effective for business combinations which occur in fiscal years beginning on or after December 15, 2008.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment to FASB Statement No. 115 that expands the use of fair value measurement of various financial instruments and other items. This statement provides entities the option to record certain financial assets and liabilities, such as firm commitments, non-financial insurance contracts and warranties, and host financial instruments at fair value. Generally, the fair value option may be applied instrument by instrument and is irrevocable once elected. The unrealized gains and losses on elected items would be recorded as earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company continues to evaluate the provisions of SFAS No. 159 and has not determined if it will make any elections for fair value reporting of its assets or liabilities.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . SFAS No. 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. As a result of SFAS No. 157 there is now a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. The provisions of SFAS No. 157 were to be effective for fiscal years beginning after November 15, 2007. On February 12, 2008, the FASB issued Staff Position ( FSP ) FAS 157-2 which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for fiscal year 2009, the Company will adopt SFAS No. 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2. The Company is in the process of determining the financial impact of the partial adoption of SFAS No. 157 on its results of operations and financial condition.

## **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, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

## **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 estimate from quarter to quarter could materially impact the

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presentation of the financial statements. The following discussion provides further information about accounting policies critical to the Company and should be read in conjunction with Footnote 1-Significant Accounting Policies and Financial Statement Information of its audited historical consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

*Allowance for Doubtful Accounts.* An allowance for losses is provided for known and potential losses arising from yarn quality claims and for amounts owed by customers. Reserves for yarn quality claims are based on historical claim experience and known pending claims. The collectability of accounts receivable is based on a combination of factors including the aging of accounts receivable, historical write-off experience, present economic conditions such as chapter 11 bankruptcy filings within the industry and the financial health of specific customers and market sectors. Since losses depend to a large degree on future economic conditions, and the health of the textile industry, a significant level of judgment is required to arrive at the allowance for doubtful accounts. Accounts are written off when they are no longer deemed to be collectible. The reserve for bad debts is established based on certain percentages applied to accounts receivable aged for certain periods of time and are supplemented by specific reserves for certain customer accounts where collection is no longer certain. The Company's exposure to losses as of June 29, 2008 on accounts receivable was \$104.7 million against which an allowance for losses of \$4.0 million was provided. The Company's exposure to losses as of June 24, 2007 on accounts receivable was \$99.9 million against which an allowance for losses of \$6.7 million was provided. Establishing reserves for yarn claims and bad debts requires management judgment and estimates, which may impact the ending accounts receivable valuation, gross margins (for yarn claims) and the provision for bad debts.

*Inventory Reserves.* Inventory reserves are established based on percentage markdowns applied to inventories aged for certain time periods. Specific reserves are established based on a determination of the obsolescence of the inventory and whether the inventory value exceeds amounts to be recovered through expected sales prices, less selling costs. Effective June 25, 2007, the Company changed its method of accounting for certain finished goods, work-in-process and raw material inventories from the last-in, first-out ( LIFO ) method to the first-in, first-out ( FIFO ) method. See Footnote 1-Significant Accounting Policies and Financial Statement Information included in Item 8. Financial Statements and Supplementary Data . Estimating sales prices, establishing markdown percentages and evaluating the condition of the inventories require judgments and estimates, which may impact the ending inventory valuation and gross margins.

*Impairment of Long-Lived Assets.* In accordance with SFAS No. 144 long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets held and used, an impairment may occur if projected undiscounted cash flows are not adequate to cover the carrying value of the assets. In such cases, additional analysis is conducted to determine the amount of loss to be recognized. The impairment loss is determined by the difference between the carrying amount of the asset and the fair value measured by future discounted cash flows. The analysis requires estimates of the amount and timing of projected cash flows and, where applicable, judgments associated with, among other factors, the appropriate discount rate. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary.

For assets held for disposal, an impairment charge is recognized if the carrying value of the assets exceeds the fair value less costs to sell. Estimates are required of fair value, disposal costs and the time period to dispose of the assets. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. Actual cash flows received or paid could differ from those used in estimating the impairment loss, which would impact the impairment charge ultimately recognized and the Company's cash flows. In fiscal year 2007 and 2008, the Company performed impairment testing which resulted in the write down of polyester and nylon plant and machinery and equipment of \$16.7 million and \$2.8 million, respectively.

*Impairment of Joint Venture Investments.* The Accounting Principles Board Opinion 18, The Equity Method of Accounting for Investments in Common Stock ( APB 18 ) states that the inability of the equity investee to sustain sufficient earnings to justify its carrying value on an other-than-temporary basis should be assessed for impairment purposes. The Company evaluates its equity investments at least annually to determine whether there is evidence that an investment has been permanently impaired. As of June 24, 2007, the Company had

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completed its evaluations of its equity investees and determined that its investment in PAL was impaired. The Company recorded a non-cash impairment charge of \$84.7 million in the fourth quarter of the Company's fiscal year 2007 based on an appraised fair value of PAL, less 25% for lack of marketability and its minority ownership percentage.

During the first quarter of fiscal year 2008, the Company determined that a review of the carrying value of its investment in USTF was necessary as a result of sales negotiations. As a result of this review, the Company determined that the carrying value exceeded its fair value. Accordingly, a non-cash impairment charge of \$4.5 million was recorded in the first quarter of fiscal year 2008.

In July 2008, the Company announced a proposed agreement to sell its 50% ownership interest in YUFI to its partner, YCFC, for \$10.0 million, pending final negotiation and execution of definitive agreements and the receipt of Chinese regulatory approvals. However, there can be no assurances that this transaction will occur in this timetable or upon these terms. In connection with a review of the YUFI value during negotiations related to the sale, the Company initiated a review of the carrying value of its investment in YUFI in accordance with APB 18. As a result of this review, the Company determined that the carrying value of its investment in YUFI exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of \$6.4 million in the fourth quarter of fiscal year 2008. The Company does not anticipate that the impairment charge will result in any future cash expenditures.

*Accruals for Costs Related to Severance of Employees and Related Health Care Costs.* From time to time, the Company establishes accruals associated with employee severance or other cost reduction initiatives. Such accruals require that estimates be made about the future payout of various costs, including, for example, health care claims. The Company uses historical claims data and other available information about expected future health care costs to estimate its projected liability. Such costs are subject to change due to a number of factors, including the incidence rate for health care claims, prevailing health care costs and the nature of the claims submitted, among others. Consequently, actual expenses could differ from those expected at the time the provision was estimated, which may impact the valuation of accrued liabilities and results of operations. The Company's estimates have been materially accurate in the past; and accordingly, at this time management expects to continue to utilize the present estimation processes.

*Valuation Allowance for Deferred Tax Assets.* The Company established a valuation allowance against its deferred tax assets in accordance with SFAS No. 109, *Accounting for Income Taxes*. The specifically identified deferred tax assets which may not be recoverable are investment impairment charges. The Company's realization of some of its deferred tax assets is based on future taxable income within a certain time period and is therefore uncertain. On a quarterly basis, the Company reviews its estimates of future taxable income over a period of years to assess if the need for a valuation allowance exists. To forecast future taxable income, the Company uses historical profit before tax amounts which may be adjusted upward or downward depending on various factors, including perceived trends, and then applies expected changes to deferred tax assets and liabilities based on when they reverse in the future. At June 29, 2008, the Company had a gross deferred tax liability of approximately \$24.3 million relating specifically to property, plant and equipment. Reversal of this deferred tax liability through depreciation is the primary item generating future taxable income. Actual future taxable income may vary significantly from management's projections due to the many complex judgments and significant estimations involved, which may result in adjustments to the valuation allowance which may impact the net deferred tax liability and provision for income taxes.

Management and the Company's audit committee discussed the development, selection and disclosure of all of the critical accounting estimates described above.

**Table of Contents****Item 7A. *Quantitative and Qualitative Disclosure About Market Risk***

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

*Interest Rate Risk:* The Company is exposed to interest rate risk through its borrowing activities which is further described in Footnote 3-Long Term Debt and Other Liabilities included in Item 8. Financial Statements and Supplementary Data . The majority of the Company's borrowings are in long-term fixed rate bonds. Therefore, the market rate risk associated with a 100 basis point change in interest rates would not be material to the Company's results of operation at the present time.

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

Currency forward contracts are used to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 50% of the sales value of these orders is covered by forward contracts. Maturity dates of the forward contracts are intended to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other income and expense. The Company also enters currency forward contracts for committed or anticipated equipment and inventory purchases. Generally, 50% of the asset cost is covered by forward contracts although 100% of the asset cost may be covered by contracts in certain instances. Forward contracts are matched with the anticipated date of delivery of the assets and gains and losses are recorded as a component of the asset cost for purchase transactions when the Company is firmly committed. The latest maturity for all outstanding purchase and sales foreign currency forward contracts are August 2008 and September 2008, respectively.

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

	<b>June 29, 2008</b>	<b>June 24, 2007</b>	<b>June 25, 2006</b>
	<b>(Amounts in thousands)</b>		
Foreign currency purchase contracts:			
Notional amount	\$ 492	\$ 1,778	\$ 526
Fair value	499	1,783	535
Net (gain) loss	\$ (7)	\$ (5)	\$ (9)
Foreign currency sales contracts:			
Notional amount	\$ 620	\$ 397	\$ 833
Fair value	642	400	878

Net gain (loss)	\$ (22)	\$ (3)	\$ (45)
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The fair values of the foreign exchange forward contracts at the respective year-end dates are based on discounted year-end forward currency rates. The total impact of foreign currency related items that are reported on the line item other (income) expense, net in the Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pre-tax loss of \$0.5 million and \$0.8 million for fiscal years ended June 29, 2008 and June 25, 2006 and a pre-tax gain of \$0.4 million for fiscal year ended June 24, 2007.

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



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**Item 8. *Financial Statements and Supplementary Data***

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of Unifi, Inc.

We have audited the accompanying consolidated balance sheets of Unifi, Inc. as of June 29, 2008 and June 24, 2007, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended June 29, 2008. Our audits also include the financial statement schedule in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unifi, Inc. at June 29, 2008 and June 24, 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 29, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Unifi, Inc.'s internal control over financial reporting as of June 29, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 5, 2008 expressed an unqualified opinion thereon.

As discussed in Note 1 to the financial statements, in 2008 the Company changed its method of accounting for inventory from the last-in first-out (LIFO) method to the first-in first-out (FIFO) method.

/s/ Ernst & Young LLP

Greensboro, North Carolina  
September 5, 2008

Table of Contents**CONSOLIDATED BALANCE SHEETS**

	June 29, 2008	June 24, 2007
	(Amounts in thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,248	\$ 40,031
Receivables, net	103,272	93,989
Inventories	122,890	132,282
Deferred income taxes	2,357	9,923
Assets held for sale	4,124	7,880
Restricted cash	9,314	7,075
Other current assets	3,693	4,898
Total current assets	265,898	296,078
Property, plant and equipment:		
Land	3,696	3,679
Buildings and improvements	150,368	166,663
Machinery and equipment	622,546	647,049
Other	78,714	95,753
	855,324	913,144
Less accumulated depreciation	(678,025)	(703,189)
	177,299	209,955
Investments in unconsolidated affiliates	70,562	93,170
Restricted cash	26,048	11,303
Goodwill	18,579	18,419
Intangible assets, net	20,386	23,871
Other noncurrent assets	12,759	13,157
	\$ 591,531	\$ 665,953

**LIABILITIES AND SHAREHOLDERS EQUITY**

Current liabilities:		
Accounts payable	\$ 44,553	\$ 61,518
Accrued expenses	25,531	28,278
Deferred gain		102
Income taxes payable	681	247
Current maturities of long-term debt and other current liabilities	9,805	11,198

Total current liabilities	80,570	101,343
Long-term debt and other liabilities	204,366	236,149
Deferred income taxes	926	23,507
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.10 par (500,000 shares authorized, 60,689 and 60,542 shares outstanding)	6,069	6,054
Capital in excess of par value	25,131	23,723
Retained earnings	254,494	270,800
Accumulated other comprehensive income	19,975	4,377
	305,669	304,954
	\$ 591,531	\$ 665,953

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

Table of Contents**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Fiscal Years Ended</b>		
	<b>June 29, 2008</b>	<b>June 24, 2007</b>	<b>June 25, 2006</b>
	<b>(Amounts in thousands, except per share data)</b>		
Summary of Operations:			
Net sales	\$ 713,346	\$ 690,308	\$ 738,665
Cost of sales	662,764	651,911	692,225
Selling, general and administrative expenses	47,572	44,886	41,534
Provision for bad debts	214	7,174	1,256
Interest expense	26,056	25,518	19,266
Interest income	(2,910)	(3,187)	(6,320)
Other (income) expense, net	(6,427)	(2,576)	(1,466)
Equity in (earnings) losses of unconsolidated affiliates	(1,402)	4,292	(825)
Restructuring charges (recoveries)	4,027	(157)	(254)
Write down of long-lived assets	2,780	16,731	2,366
Write down of investment in equity affiliates	10,998	84,742	
Loss from early extinguishment of debt			2,949
Loss from continuing operations before income taxes and extraordinary item	(30,326)	(139,026)	(12,066)
Provision (benefit) for income taxes	(10,949)	(21,769)	301
Loss from continuing operations	(19,377)	(117,257)	(12,367)
Income from discontinued operations, net of tax	3,226	1,465	360
Net loss	\$ (16,151)	\$ (115,792)	\$ (12,007)
Income (loss) per common share (basic and diluted):			
Loss from continuing operations	\$ (.32)	\$ (2.09)	\$ (.23)
Income from discontinued operations, net of tax	.05	.03	
Net loss per common share	\$ (.27)	\$ (2.06)	\$ (.23)

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

Table of Contents**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Shares	Common	Capital in Excess of Par Value	Retained Earnings	Unearned Compensation	Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income (Loss) Note 1
	Outstanding	Stock		(Amounts in thousands)				
Balance June 26, 2005	52,145	\$ 5,215	\$ 208	\$ 398,599	\$ (128)	\$ (18,168)	\$ 385,726	
Reclassification upon adoption of SFAS 123R		(1)	27		128		154	
Options exercised	63	6	168				174	
Stock option tax benefit			1				1	
Stock option expense			394				394	
Cancellation of unvested restricted stock			131				131	
Currency translation adjustments						5,550	5,550	\$ 5,550
Liquidation of foreign subsidiaries						7,340	7,340	7,340
Net loss				(12,007)			(12,007)	(12,007)
Balance June 25, 2006	52,208	5,220	929	386,592		(5,278)	387,463	\$ 883
Issuance of stock	8,334	834	21,166				22,000	
Stock registration costs			(63)				(63)	
Stock option expense			1,691				1,691	
Currency translation adjustments						9,655	9,655	\$ 9,655
Net loss				(115,792)			(115,792)	(115,792)
Balance June 24, 2007	60,542	6,054	23,723	270,800		4,377	304,954	\$ (106,137)

Adoption of FIN 48				(155)			(155)		
Options exercised	147	15	396				411		
Stock registration costs			(3)				(3)		
Stock option expense			1,015				1,015		
Currency translation adjustments						15,598	15,598	\$	15,598
Net loss				(16,151)			(16,151)		(16,151)
Balance June 29, 2008	60,689	\$ 6,069	\$ 25,131	\$ 254,494	\$	\$ 19,975	\$ 305,669	\$	(553)

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

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Fiscal Years Ended</b>		
	<b>June 29, 2008</b>	<b>June 24, 2007</b>	<b>June 25, 2006</b>
	<b>(Amounts in thousands)</b>		
Cash and cash equivalents at beginning of year	\$ 40,031	\$ 35,317	\$ 105,621
Operating activities:			
Net loss	(16,151)	(115,792)	(12,007)
Adjustments to reconcile net loss to net cash provided by continuing operating activities:			
Income from discontinued operations	(3,226)	(1,465)	(360)
Net (earnings) loss of unconsolidated equity affiliates, net of distributions	3,060	7,029	1,945
Depreciation	36,931	41,594	48,669
Amortization	4,643	3,264	1,276
Stock-based compensation expense	1,015	1,691	394
Deferred compensation expense, net	(665)	1,619	
Net gain on asset sales	(4,003)	(1,225)	(940)
Non-cash portion of loss on extinguishment of debt			1,793
Non-cash portion of restructuring charges (recoveries), net	4,027	(157)	(254)
Non-cash write down of long-lived assets	2,780	16,731	2,366
Non-cash write down of investment in equity affiliates	10,998	84,742	
Deferred income tax	(15,066)	(23,776)	(6,305)
Provision for bad debts	214	7,174	1,256
Other	(8)	(866)	(1,007)
Changes in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments:			
Receivables	(5,163)	(2,522)	10,592
Inventories	14,144	5,619	(9,674)
Other current assets	1,641	187	(1,278)
Accounts payable and accrued expenses	(21,860)	(12,133)	(8,504)
Income taxes	362	(1,094)	542
Net cash provided by continuing operating activities	13,673	10,620	28,504
Investing activities:			
Capital expenditures	(12,809)	(7,840)	(11,988)
Acquisitions	(1,063)	(43,165)	(30,634)
Return of capital from equity affiliates		3,630	
Investment in foreign restricted assets			171
Proceeds from sale of equity affiliate	8,750		