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

þ **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

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-10542

Unifi, Inc.
(Exact name of registrant as specified in its charter)

New York	**11-2165495**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
P.O. Box 19109 7201 West Friendly Avenue Greensboro, NC	**27419-9109**
(Address of principal executive offices)	*(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	**Name of Each Exchange on Which Registered**
Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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

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 o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark 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. þ

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

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

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.)

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 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 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 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.

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

	Fiscal Years Ended		
	June 29, 2008	**June 24, 2007**	**June 25, 2006**
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. 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 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;

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, 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 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.

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.

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Item 2. *Properties*

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

Location	Description
Polyester Segment Properties:	
Domestic:	
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
Foreign:	
Alfenas, Brazil	One plant and one warehouse
Sao Paulo, Brazil	One corporate office
Nylon Segment Properties:	
Domestic	
Madison, NC	One plant
Fort Payne, AL	One central distribution center
Foreign:	
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 Controller, 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.

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.

	High	Low
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:

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

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

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 owed 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.

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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.

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

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Item 6. ***Selected Financial Data***

	June 29, 2008 (53 Weeks)	June 24, 2007 (52 Weeks)	June 25, 2006 (52 Weeks)	June 26, 2005 (52 Weeks)	June 27, 2004 (52 Weeks)
	(Amounts in thousands, except per share data)				
Summary of Operations:(1)					
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.

(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 or 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;

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 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 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):

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

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

	Balance at June 26, 2005	Additional Charges	Adjustments	Amounts Used	Balance at June 25, 2006
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

$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):

	June 29, 2008				
	PAL	**YUFI**	**UNF**	**USTF**	**Total**
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