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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 28, 2003

OR

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

For the transition period from _____________to _____________

Commission file number 1-10542

UNIFI, INC.

(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	**11-2165495** (I.R.S. Employer Identification No.)
P.O. Box 19109 — 7201 West Friendly Avenue Greensboro, NC (Address of principal executive offices)	**27419** (Zip Code**)**

Registrant's telephone number, including area code: **(336) 294-4410**

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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes [X] No [ ]

The number of shares outstanding of the issuer's common stock, par value $.10 per share, as of February 2, 2004 was 52,104,307.

Part I. Financial Information
Item 1. Financial Statements

UNIFI, INC.
Condensed Consolidated Balance Sheets

	December 28, 2003	June 29, 2003
	(Unaudited)	(Note)
	(Amounts in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,311	$ 76,801
Receivables, net	110,675	130,775
Inventories	115,110	118,436
Other current assets	7,723	8,235
Total current assets	292,819	334,247
Property, plant and equipment	1,230,322	1,214,915
Less: accumulated depreciation	(810,979)	(770,102)
	419,343	444,813
Investments in unconsolidated affiliates	174,542	173,731
Other noncurrent assets	35,406	35,345
Total assets	$ 922,110	$ 988,136
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 54,565	$ 80,972
Accrued expenses	46,529	60,288
Income taxes payable	1,293	1,729
Current maturities of long-term debt and other current liabilities	6,986	7,285
Total current liabilities	109,373	150,274
Long-term debt and other liabilities	258,730	259,395
Deferred income taxes	81,167	87,814
Minority interests	9,475	10,905
Commitments and contingencies		
Shareholders' equity:		
Common stock	5,210	5,340
Retained earnings	493,535	515,572
Unearned compensation	(192)	(302)
Accumulated other comprehensive loss	(35,188)	(40,862)
	463,365	479,748
Total liabilities and shareholders' equity	$ 922,110	$ 988,136

Note: The balance sheet at June 29, 2003, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See accompanying notes to condensed consolidated financial statements.

UNIFI, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Quarters Ended		For the Six Months Ended	
	Dec. 28, 2003	Dec. 29, 2002	Dec. 28, 2003	Dec. 29, 2002
	(Amounts in thousands, except per share data)			
Net sales	$183,667	$201,859	$363,871	$423,389
Cost of sales	180,003	186,910	349,621	385,323
Selling, general & administrative expense	12,790	13,130	26,159	25,476
Interest expense	4,789	5,446	9,531	10,545
Interest income	568	253	1,396	746
Other (income) expense, net	1,092	649	1,885	(70)
Equity in losses (earnings) of unconsolidated affiliates	146	(2,605)	(111)	(6,157)
Minority interest (income) expense	(1,121)	758	(2,077)	3,571
Arbitration costs and expenses	—	1,625	—	2,834
(Loss) income before income taxes	(13,464)	(3,801)	(19,741)	2,613
(Benefit) provision for income taxes	(4,243)	(1,631)	(5,959)	456
Net (loss) income	$ (9,221)	$ (2,170)	$ (13,782)	$ 2,157
(Losses) earnings per common share — basic	$ (.18)	$ (.04)	$ (.26)	$ .04
(Losses) earnings per common share — diluted	$ (.18)	$ (.04)	$ (.26)	$ .04

See accompanying notes to condensed consolidated financial statements.

UNIFI, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Six Months Ended	
	December 28, 2003	December 29, 2002
	(Amounts in thousands)	
Cash and cash equivalents (used in) provided by operating activities	$ (3,022)	$ 68,080
Investing activities:		
Capital expenditures	(4,945)	(13,962)
Investment of foreign restricted assets	(535)	—
Proceeds from sale of capital assets	13	67
Other	(645)	3,130
Net cash used in investing activities	(6,112)	(10,765)
Financing activities:		
Borrowing of long-term debt	265,020	506,420
Repayment of long-term debt	(266,246)	(531,100)
Purchase and retirement of Company stock	(8,387)	(19)
Net cash used in financing activities	(9,613)	(24,699)
Currency translation adjustment	1,257	(3,454)
Net (decrease) increase in cash and cash equivalents	(17,490)	29,162
Cash and cash equivalents at beginning of period	76,801	19,105
Cash and cash equivalents at end of period	$ 59,311	$ 48,267

See accompanying notes to condensed consolidated financial statements.

1. Basis of Presentation

The information furnished is unaudited and reflects all adjustments which are, in the opinion of management, necessary to present fairly the financial position at December 28, 2003, and the results of operations and cash flows for the periods ended December 28, 2003 and December 29, 2002. Such adjustments consisted of normal recurring items necessary for fair presentation in conformity with U.S. generally accepted accounting principles. Preparing financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in the Company's latest Form 10-K. Certain prior year amounts have been reclassified to conform with current year presentation.

2. Inventories

Inventories were comprised of the following (amounts in thousands):

	December 28, 2003	June 29, 2003
Raw materials and supplies	$ 56,084	$ 56,855
Work in process	8,637	9,171
Finished goods	50,389	52,410
	$ 115,110	$118,436

3. Income Taxes

Deferred income taxes have been provided for the temporary differences between financial statement carrying amounts and tax basis of existing assets and liabilities.

The Company's income tax provision (benefit) for both current and prior year periods is different from the U.S. statutory rate due to income from certain foreign operations being taxed at lower effective rates and substantially no income tax benefits being recognized for the losses incurred by certain foreign subsidiaries as the recoverability of such tax benefits through loss carryforwards or carrybacks is not reasonably assured.

4. Comprehensive Income (Loss)

Comprehensive income (loss) amounted to $(2.4) million for the second quarter of fiscal 2004 and $(8.1) million for the year-to-date period, compared to $4.5 million and $(2.7) million for the prior year quarter and year-to-date periods, respectively. Comprehensive income (loss) for all periods presented was comprised of net income (loss) and foreign translation adjustments. The Company does not provide income taxes on the impact of currency translations as earnings from foreign subsidiaries are deemed to be permanently invested.

5. Earnings per Share

The components of basic and diluted earnings per share were as follows (amounts in thousands):

	For the Quarters Ended		For the Six Months Ended	
	Dec. 28, 2003	Dec. 29, 2002	Dec. 28, 2003	Dec. 29, 2002
Net (loss) income available for common shareholders	$ (9,221)	$ (2,170)	$ (13,782)	$ 2,157
Weighted average outstanding shares of common stock	52,098	53,782	52,422	53,774
Dilutive effect of:				
Stock options	—	—	—	53
Restricted stock awards	—	—	—	3
Common stock and common stock equivalents	52,098	53,782	52,422	53,830
(Loss) earnings per common share:				
Basic	$ (.18)	$ (.04)	$ (.26)	$ .04
Diluted	$ (.18)	$ (.04)	$ (.26)	$ .04

6. Recent Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 148 “Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123” (FAS 148). This statement amends SFAS No. 123 “Accounting for Stock Based Compensation” (FAS 123) to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. FAS 148 also amends the disclosure requirements of FAS 123 to require disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements. The annual impact of determining stock based compensation using the fair value module prescribed by FAS 123 has been disclosed in the Company’s previous annual 10-K filings, and the applicable disclosures in this report are in Note 8. At this time, the Company plans to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” rather than change to the FAS 123 fair value method.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities” (FIN 46). This interpretation of Accounting Research Bulletin No. 51, “Consolidated Financial Statements”, addresses consolidation of variable interest entities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary if the entity does not effectively disperse risks among the parties involved. During December 2003, FASB Interpretation No. 46 was revised and the effective date for applying FIN 46 was postponed until the first reporting period that ends after March 15, 2004. The Company does not expect that FIN 46 will have a material effect on the Company’s consolidated financial position or results of operations upon preliminary analysis. See Note 10 for disclosure of information related to investments in unconsolidated affiliates.

7. Segment Disclosures

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," (SFAS 131) established standards for public companies for the reporting of financial information from operating segments in annual and interim financial statements as well as related disclosures about products and services, geographic areas and major customers. Operating segments are defined in SFAS 131 as components of an enterprise about which separate financial information is available to the chief operating decision-maker for purposes of assessing performance and allocating resources. Following is the Company's selected segment information for the quarter and year-to-date periods ended December 28, 2003, and December 29, 2002 (amounts in thousands):

	Polyester	Nylon	Total
Quarter ended December 28, 2003:			
Net sales to external customers	$135,057	$ 48,610	$183,667
Intersegment net sales	255	317	572
Segment operating (loss) income	(7,020)	(891)	(7,911)
Depreciation and amortization	10,978	4,084	15,062
Total assets	497,391	188,349	685,740
Quarter ended December 29, 2002:			
Net sales to external customers	$145,542	$ 56,317	$201,859
Intersegment net sales	44	108	152
Segment operating income	2,120	911	3,031
Depreciation and amortization	12,284	4,926	17,210
Total assets	524,503	196,522	721,025

	For the Quarters Ended	
	December 28, 2003	December 29, 2002
Operating income:		
Reportable segments operating (loss) income	$ (7,911)	$ 3,031
Net standard cost adjustment to LIFO	(645)	(914)
Unallocated operating expense	(570)	(1,923)
Consolidated operating (loss) income	(9,126)	194
Interest expense, net	4,221	5,193
Other (income) expense, net	1,092	649
Equity in losses (earnings) of unconsolidated affiliates	146	(2,605)
Minority interest (income) expense	(1,121)	758
(Loss) income before income taxes	$ (13,464)	$ (3,801)

	Polyester	Nylon	Total
Six months ended December 28, 2003:			
Net sales to external customers	$265,840	$ 98,031	$363,871
Intersegment net sales	1,238	1,303	2,541
Segment operating (loss) income	(9,054)	(3,284)	(12,338)
Depreciation and amortization	22,258	8,045	30,303
Six months ended December 29, 2002:			
Net sales to external customers	$302,776	$120,613	$423,389
Intersegment net sales	45	219	264
Segment operating income	11,257	1,365	12,622
Depreciation and amortization	24,505	9,710	34,215

	For the Six Months Ended	
	December 28, 2003	December 29, 2002
Operating income:		
Reportable segments operating (loss) income	$ (12,338)	$ 12,622
Net standard cost adjustment to LIFO	1,463	563
Unallocated operating expense	(1,034)	(3,429)
Consolidated operating (loss) income	(11,909)	9,756
Interest expense, net	8,135	9,799
Other (income) expense, net	1,885	(70)
Equity in earnings of unconsolidated affiliates	111	6,157
Minority interest (income) expense	(2,077)	3,571
(Loss) income before income taxes	$ (19,741)	$ 2,613

For purposes of internal management reporting, segment operating income (loss) represents net sales less cost of sales and allocated selling, general and administrative expenses. Certain indirect manufacturing and selling, general and administrative costs are allocated to the operating segments based on activity drivers relevant to the respective costs.

The primary differences between the segmented financial information of the operating segments, as reported to management, and the Company’s consolidated reporting relates to intersegment transfers of yarn, fiber costing, the provision for bad debts, certain unallocated selling, general and administrative expenses and capitalization of property, plant and equipment costs.

Domestic operating divisions’ fiber costs are valued on a standard cost basis, which approximates first-in, first-out accounting. For those components of inventory valued utilizing the last-in, first-out (LIFO) method, an adjustment is made at the corporate level to record the difference between standard cost and LIFO. Segment operating income excludes the provision for bad debts of $0.5 million and $0.7 million for the current and prior year quarters, respectively, and $1.0 million and $2.0 million for the current and prior year six month periods, respectively. Segment operating income also excludes certain unallocated selling, general and administrative expenses. For significant capital projects, capitalization is delayed for management segment reporting until the facility is substantially complete. However, for consolidated management financial reporting, assets are capitalized into construction in progress as costs are incurred or carried as unallocated corporate fixed assets if they have been placed in service but have not as yet been moved for management segment reporting.

The total assets for the polyester segment decreased from $540.5 million at June 29, 2003 to $497.4 million at December 28, 2003 due primarily to domestic assets decreasing by $44.3 million (accounts receivable, inventories, and fixed assets decreased by $14.7 million, $5.6 million and $24.0 million, respectively). The total assets for the nylon segment increased from $184.8 million at June 29, 2003 to $188.3 million at December 28, 2003 due mainly to domestic assets increasing by $3.0 million (accounts receivable and inventories increased by $8.6 million, and $2.3 million, respectively, offset by a decrease in fixed assets of $7.9 million).

8. Stock-Based Compensation

With the adoption of SFAS 123, “Accounting for Stock-Based Compensation” and SFAS 148 “Accounting for Stock-Based Compensation – Transition and Disclosure”, the Company continues to measure compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by APB Opinion No. 25, “Accounting for Stock Issued to Employees.” Had the fair value-based method under SFAS 123 been applied, compensation expense would have been recorded for the options outstanding based on their respective vesting schedules.

Net income (loss) on a pro forma basis assuming SFAS 123 has been applied would have been as follows:

	For the Quarters Ended		For the Six Months Ended	
	Dec. 28, 2003	Dec. 29 2002	Dec. 28, 2003	Dec. 29 2002
	(Amounts in thousands, except per share data)			
Net (loss) income as reported	$ (9,221)	$ (2,170)	$ (13,783)	$ 2,157
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(390)	(835)	(1,126)	(1,832)
Pro forma net (loss) income	$ (9,611)	$ (3,005)	$ (14,909)	$ 325
Earnings (losses) per share:				
Basic – as reported	$ (.18)	$ (0.4)	$ (.26)	$ .04
Basic – pro forma	(.18)	(0.6)	(.28)	.01
Diluted – as reported	(.18)	(0.4)	(.26)	.04
Diluted – pro forma	(.18)	(0.6)	(.28)	.01

The fair value and related compensation expense of all options were calculated as of the issuance date using the Black-Scholes model.

9. Derivative Financial Instruments

The Company accounts for derivative contracts and hedging activities under Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (SFAS 133) which requires all derivatives to be recorded on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company does not enter into derivative financial instruments for trading purposes.

The Company conducts its business in various foreign currencies. As a result, it is subject to the transaction exposure that arises from foreign exchange rate movements between the dates that foreign currency transactions are recorded (export sales and purchase commitments) and the dates they are consummated (cash receipts and cash disbursements in foreign currencies). The Company utilizes some natural hedging to mitigate these transaction exposures. The Company also enters into foreign currency forward contracts for the purchase and sale of European, Canadian, Brazilian and other currencies to hedge balance sheet and income statement currency exposures. These contracts are principally entered into for the purchase of inventory and equipment and the sale of Company products into export markets. Counterparties for these instruments are major financial institutions.

Currency forward contracts are entered to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 60-80% of the sales value of these orders are covered by forward contracts. Maturity dates of the forward contracts attempt to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other income and expense. The Company also enters currency forward contracts for committed or anticipated equipment and inventory purchases. Generally, 50-75% of the asset cost is covered by forward contracts although 100% of the asset cost may be covered by contracts in certain instances. Forward contracts are matched with the anticipated date of delivery of the assets and gains and losses are recorded as a component of the asset cost for purchase transactions when the Company is firmly committed. The latest maturity for all outstanding purchase and sales foreign currency forward contracts are April 2004 and December 2004, respectively.

The dollar equivalent of these forward currency contracts and their related fair values are detailed below (amounts in thousands):

	December 28, 2003	June 29, 2003
Foreign currency purchase contracts:		
Notional amount	$ 5,776	$ 2,926
Fair value	5,622	2,658
Net (gain) loss	$ 154	$ 268
Foreign currency sales contracts:		
Notional amount	$ 19,355	$18,530
Fair value	19,284	17,945
Net (gain) loss	$ (71)	$ (585)

For the quarters ended December 28, 2003 and December 29, 2002, the total impact of foreign currency related items on the Condensed Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pre-tax gain of $0.0 million and $0.2 million, respectively.

10. Investments in Unconsolidated Affiliates

On September 13, 2000, the Company and SANS Fibres of South Africa formed a 50/50 joint venture (UNIFI-SANS Technical Fibers, LLC or UNIFI-SANS) to produce low-shrinkage high tenacity nylon 6.6 light denier industrial (LDI) yarns in North Carolina. UNIFI-SANS incorporated the two-stage light denier industrial nylon yarn business of Solutia, Inc. (Solutia) which was purchased when the venture was formed. Solutia exited the two-stage light denier industrial yarn business transitioning production from its Greenwood, SC site to the UNIFI-SANS Stoneville, North Carolina facility, a former Unifi manufacturing location. The UNIFI-SANS facility started initial production in January 2002 and was substantially on line by the end of September 2002. Unifi manages the day-to-day production and shipping of the LDI produced in North Carolina and SANS Fibres handles technical support and sales. Sales from this entity are primarily to customers in the NAFTA and CBI markets.

Through December 28, 2003 the joint venture has incurred substantial losses primarily as a result of start-up activities, difficulties in implementing manufacturing processes and technology and the quotation of lower than historical sales prices in an effort to secure new business in a difficult market. Efforts are underway to improve operating performance by focusing on improved manufacturing processes and technological performance.

Since the second quarter of fiscal 2003, management of the joint venture determined that on a quarterly basis it was appropriate to evaluate the above circumstances and their effect on the tangible and intangible long lived assets employed by the joint venture in an effort to determine if the carrying value of such assets may not be recoverable. During the December quarter, a test of the recoverability of its long lived assets, approximately $26.2 million as of December 28, 2003, was completed and it was determined that the carrying value of such assets was recoverable through expected future cash flows. UNIFI-SANS currently has two major customers that have long-term sales contracts which are in the process of being re-negotiated. The results of these negotiations could have an effect on the test of recoverability. The joint venture will continue to be monitored for the recoverability of its long lived assets as business conditions change.

On September 27, 2000, Unifi and Nilit Ltd., located in Israel, formed a 50/50 joint venture named U.N.F. Industries Ltd. The joint venture produces approximately 25.0 million pounds of nylon partially oriented yarn (POY) at Nilit's manufacturing facility in Migdal Ha – Emek, Israel. Production and shipping of POY from this facility began in March 2001. The nylon POY is utilized in the Company's nylon texturing and covering operations.

The Company continues to maintain a 34% interest in Parkdale America, LLC ("PAL"). PAL is a producer of cotton and synthetic yarns for sale to the textile and apparel industries primarily within North America. PAL has 16 manufacturing facilities primarily located in central and western North Carolina. See Note 15 "Subsequent Events" for further information regarding this investment.

The Company also has a 16.1% interest in Micell Technologies, Inc.

Condensed balance sheet and income statement information as of December 28, 2003, and for the quarter and year-to-date periods ended December 28, 2003, of the combined unconsolidated equity affiliates is as follows (amounts in thousands):

	December 28, 2003
Current assets	$ 219,448
Noncurrent assets	171,834
Current liabilities	39,150
Shareholders' equity and capital accounts	294,894

	Quarter Ended December 28, 2003	For the Six Months Ended December 28, 2003
Net sales	$ 120,178	$ 218,261
Gross profit	2,336	4,989
(Loss) income from operations	(3,881)	(6,690)
Net (loss) income	(1,208)	654

11. Consolidation and Cost Reduction Efforts

In fiscal years 2001 and 2002, the Company recorded charges of $9.0 million for severance and employee termination related costs. The majority of these charges related to U.S. and European operations and included plant closings and consolidations, and the reorganization of administrative functions, resulting in the termination of approximately 750 employees including management, production workers and administrative support.

In fiscal year 2003, the Company recorded charges of $16.9 million for severance and employee related costs that were associated with the U.S. and European operations. Approximately 680 management and production level employees worldwide were affected by the reorganization. Severance payments are being made in accordance with various plan terms and the expected completion date is June 2005.

The table below summarizes changes to the accrued liability for the employee severance portion of the consolidation and cost reduction charge for the six months ended December 28, 2003:

(Amounts in thousands)	Balance at June 29, 2003	Fiscal 2004 Charge	Cash Payments	Balance at Dec. 28, 2003
Accrued Severance Liability	$ 13,893	$ 800	$(10,131)	$ 4,562

12. Alliance

Effective June 1, 2000, the Company and E.I. DuPont De Nemours and Company (DuPont) initiated a manufacturing alliance. The intent of the alliance is to optimize the Company's and DuPont's POY manufacturing facilities by increasing manufacturing efficiency and improving product quality. Under its terms, DuPont and the Company cooperatively run their polyester filament manufacturing facilities as a single operating unit. This consolidation involved the closing of the DuPont Cape Fear, North Carolina plant and transition of the commodity yarns from the Company's Yadkinville, North Carolina facility to DuPont's Kinston, North Carolina plant, and high-end specialty production from Kinston and Cape Fear to Yadkinville. The companies split equally the costs to complete the necessary plant consolidation and the benefits gained through asset optimization. Additionally, the companies collectively attempt to increase profitability through the development of new products and related technologies. Likewise, the costs incurred and benefits derived from the product innovations are split equally. DuPont and the Company continue to own and operate their respective sites and employees remain with their respective employers. DuPont continues to provide POY to the marketplace and the Company continues to provide textured yarn to the marketplace.

During the quarters ended December 28, 2003 and December 29, 2002, the Company recognized, as a reduction of cost of sales, cost savings and other benefits from the alliance of $7.0 million and $7.8 million, respectively, and $16.5 million and $17.7 million for the current and prior year-to-date periods, respectively.

At termination of the Alliance or at any time after June 1, 2005, DuPont has the right but not the obligation to sell to Unifi (a “Put”) and Unifi has the right but not the obligation to purchase from DuPont (a “Call”), DuPont’s U.S. polyester filament business for a price based on a mutually agreed fair market value. In the event Dupont exercises its Put or Unifi exercises its Call prior to the end of the sixth year of the Alliance, the purchase price of Dupont’s business shall be within a range of $300.0 million to $600.0 million. Dupont’s right to put its U.S. polyester filament business to Unifi and Unifi’s obligation to purchase such business are subject to certain conditions, including the ability of the Company to obtain a reasonable amount of financing on commercially reasonable terms. The Company believes that its ability to finance the purchase of Dupont’s U.S. polyester filament business will be partially dependant upon the level of underlying cash flows generated by such business; and it is unclear whether the cash flow levels expected to be generated by the business are sufficient at this time to enable the Company to obtain such financing. In the event that the Company does not purchase the DuPont U.S. polyester filament business, DuPont would have the right but not the obligation to purchase the Company’s domestic POY facility for a price based on a mutually agreed fair market value. In the event Dupont exercises the aforesaid right to purchase within twelve months of receipt of its “Notice of Exercise” to the Company, then the purchase price for the Company’s domestic POY facility shall be within a range of $125.0 million to $175.0 million. See Note 14 for additional information involving the Alliance.

On November 17, 2004, Dupont and Koch Industries, Inc. (Koch) announced the potential purchase by Koch of certain Dupont textile facilities, including the Dupont Kinston facility, which is a part of the Alliance. The Company was subsequently requested, and granted its consent, to the transaction involving the Kinston facility. The Company has been informed that the closing date of the proposed transaction is expected in April 2004. Subsequent to the closing date, the Alliance Agreement will be between Koch and the Company.

13. Bank Debt

The Company has a $100.0 million asset based revolving credit agreement (the “Credit Agreement”) that terminates on December 7, 2006. The Credit Agreement is secured by substantially all U.S. assets excluding manufacturing facilities and manufacturing equipment. Borrowing availability is based on eligible domestic accounts receivable and inventory.

As of December 28, 2003, the Company had no outstanding borrowings and had availability of $86.0 million under the terms of the Credit Agreement. Borrowings under the Credit Agreement bear interest at rates selected periodically by the Company of LIBOR plus 1.75% to 3.00% and/or prime plus 0.25% to 1.50%. The interest rate matrix is based on the Company’s leverage ratio of funded debt to EBITDA, as defined by the Credit Agreement. The interest rate in effect at December 28, 2003, was 3.62%. Under the

Credit Agreement, the Company pays an unused line fee ranging from 0.25% to 0.50% per annum on the unused portion of the commitment.

The Credit Agreement contains customary covenants for asset based loans which restrict future borrowings and capital spending and, if availability is less than $25.0 million at any time during the quarter, include a required minimum fixed charge coverage ratio of 1.1 to 1.0 and a required maximum leverage ratio of 5.0 to 1.0. At December 28, 2003, the Company was in compliance with all covenants under the Credit Agreement as it had availability in excess of $25.0 million.

14. Commitments and Contingencies

As further described in Note 12 “Alliance,” effective June 1, 2000, the Company and Dupont entered into a manufacturing alliance. On January 13, 2004, Unifi received a Demand For and Notice of Arbitration dated January 12, 2004 (the “Arbitration Notice”). The Arbitration Notice claims that the Company breached its “Transition Period” purchasing obligation from DuPont and implied covenant of good faith and fair dealing to DuPont. In the Arbitration Notice, Dupont claims the damage to it by the Company is “not less than approximately $13 million in damages”.

On February 5, 2004, the Company filed a response to the Arbitration Notice denying Dupont’s claims and asserting several defenses to the claims. However, the outcomes of theses claims are uncertain at this time and the ultimate resolution of these matters could be material to Unifi’s financial position, results of operations and cash flows. Due to the complex nature of Dupont’s claims, the Company, at this time, is not able to reasonably estimate an appropriate reserve for Dupont’s claims.

15. Subsequent Events

As discussed in Note 10, the Company maintains a 34% interest in Parkdale America, LLC (“PAL”), which manufactures and sells open-end and air jet spun cotton. The Company was recently informed by PAL of its participation in activities with competitors in the markets for open-end and air jet spun cotton and polycotton yarns used in the manufacture of hosiery and other garments that may have resulted in violations of US antitrust laws. The Company had no involvement whatsoever in the activities at issue and believes it has no liability arising out of them.

PAL informed the Company that it voluntarily disclosed the activities to the U.S. Department of Justice Antitrust Division (the “DOJ”), and that the DOJ has launched an investigation of the activities. PAL informed the Company that it is cooperating fully with the DOJ. If PAL violated U.S. antitrust laws, PAL could face civil liability including treble damages.

The Company accounts for its investment in PAL on the equity method of accounting and as of December 28, 2003, the Company’s carrying investment in PAL (including goodwill value) was $150.6 million. During the six months ended December 28, 2003, the Company had equity in earnings relating to PAL of $0.4 million. The Company is unable at this time to determine the level of damages for which PAL may be liable or the impact of such liability on the Company, which impact could be material. The Company is continuing to review the circumstances surrounding PAL’s involvement in the activities.

The following is Management’s discussion and analysis of certain significant factors that have affected the Company’s operations and material changes in financial condition during the periods included in the accompanying Condensed Consolidated Financial Statements.

Results of Operations

Consolidated net sales decreased from $201.9 million to $183.7 million, or 9.0%, for the quarter and 14.1% for the year-to-date period. Unit volume decreased 6.2% for the quarter and 11.8% for the year-to-date period, while average net selling prices decreased by 2.8% and 2.3% for the quarter and year-to-date periods, respectively, as a result of sales price declines and a change in product mix.

At the segment level, polyester accounted for 73% of dollar net sales and nylon accounted for 27% of dollar sales for both the fiscal year 2004 second quarter and year-to-date periods.

Polyester

Dollar sales for our polyester segment for the quarter and year-to-date periods declined 7.3% and 11.3%, respectively, compared with the prior year periods. Domestic polyester unit volume for the fiscal 2004 second quarter and year-to-date periods decreased 10.4% and 15.7%, respectively, compared to the prior year periods. Average selling prices for the fiscal year 2004 second quarter and year-to-date periods declined 1.2% and increased 0.3%, respectively, as a result of reduced selling prices and a change in product mix.

Sales in local currency for our Brazilian operation decreased 0.8% while unit volume increased 12.3% for the quarter. For the six month period, sales in local currency for the Brazilian operation increased 2.4% primarily due to a 6.7% increase in unit volume. The decrease in selling prices for the quarter is primarily due to the strengthening of the Brazilian Real to the U.S. dollar. Sales in local currency of our Irish operation for the quarter and six month periods decreased 36.1% and 32.4%, respectively, primarily due to reductions in unit volumes of 28.6% and 27.3%, respectively. The average unit selling prices for the Irish operation decreased 10.5% for the current quarter and 7.3% for the six month period. The movement in currency exchange rates from the prior year to the current year positively benefited the current quarter and year-to-date sales translated to U.S. dollars for the Brazilian operation. U.S. dollar net sales were $4.5 million and $5.6 million higher than what sales would have been reported using prior year translation rates for the quarter and year-to-date, respectively, with this effect attributable to the change in the exchange rate between the U.S. dollar and the Brazilian Real. U.S. dollar net sales for the Irish operation were $2.6 million and $4.8 million higher than what sales would have been reported using prior year translation rates for the quarter and year-to-date periods, respectively.

Gross profit for our polyester segment decreased $9.1 million to $2.6 million in the quarter and decreased $18.9 million to $10.5 million for the six month period. The decrease in gross profit for the quarter and six month periods is primarily due to a decrease in unit volumes and average sales price. The DuPont alliance accounted for benefits of $7.0 million and $7.8 million for the current and prior year quarters, respectively, and accounted for year-to-date benefits of $16.5 million and $17.7 million for the current and prior year-to-date periods.

Selling, general and administrative expenses allocated, based on various cost components, to the polyester segment increased from 6.6% of net sales in the prior year December quarter to 7.0% in the current quarter, and from 6.2% of net sales in the prior year six month period to 7.2% in the current six month period. On a dollar basis, selling, general and administrative expenses decreased $0.1 million to $9.6 million for the current quarter and increased $0.8 million to $19.6 million for the current six month period compared with prior year periods.

Nylon

Dollar sales for our nylon segment for the current year quarter and year-to-date periods declined 13.5% and 18.6%, respectively, compared with prior year periods. Nylon unit volume for the December quarter and year-to-date periods declined 6.1% and 12.9%, respectively, compared to the prior year periods. Average selling prices decreased 7.9% for the quarter and 6.5% for the six month period.

Gross profit for our nylon segment decreased $2.1 million to $2.1 million in the quarter and decreased $5.1 million to $3.0 million for the six month period primarily as a result of declining sales. Manufacturing unit costs decreased slightly for both periods however, the decline in selling price more than offset the benefit.

Selling, general and administrative expenses allocated to the nylon segment increased from 5.6% of net sales in the prior year’s December quarter to 6.0% in the current quarter, and from 5.0% in the prior year’s six month period to 6.2% in the current six month period. On a dollar basis, selling, general and administrative expenses decreased $0.2 million to $3.0 million for the December quarter and increased $0.2 million to $6.3 million for the year-to-date period.

Corporate

Interest expense decreased $0.6 million to $4.8 million in the current quarter and decreased $1.0 million to $9.5 million for the current year-to-date period. The decrease in interest expense for the quarter and six months reflects lower average debt outstanding. The weighted average interest rate on outstanding debt at December 28, 2003, was 6.4% compared to 6.9% at December 29, 2002.

Other income and (expense) was $(1.1) million in the current year fiscal quarter compared to $(0.6) million in the prior year second quarter. For the current and prior year-to-date periods, other income and (expense) was $(1.9) million and $0.1 million, respectively. Other income and expense for the prior six month period was favorably impacted by the recognition in income of non-refundable fees collected in the amount of $1.0 million associated with our technology license agreement with Tuntex (Thailand). Other income and expense for the current and prior year quarters includes $0.5 million and $0.9 million, respectively, for the provision of bad debts. For the current year-to-date period, the provision for bad debts was $1.0 million compared to $2.0 million for the prior year-to-date period.

Equity in the net losses of our unconsolidated affiliates, Parkdale America, LLC, Micell Technologies, Inc., Unifi-Sans Technical Fibers, LLC and U.N.F. Industries Ltd amounted to $0.1 million in the second quarter of fiscal 2004 compared with earnings of $2.6 million for the corresponding prior year quarter. For the year-to-date period, equity in net earnings of these affiliates totaled $0.1 million compared to net earnings of $6.2 million in the prior year. Additional details regarding the Company’s investments in unconsolidated equity affiliates and alliance follows:

On September 13, 2000, the Company and SANS Fibres of South Africa formed a 50/50 joint venture (UNIFI-SANS Technical Fibers, LLC or UNIFI-SANS) to produce low-shrinkage, high tenacity, nylon 6.6 light denier industrial (LDI) yarns in North Carolina. UNIFI-SANS incorporated the two-stage, light denier industrial nylon yarn business of Solutia, Inc. (Solutia) which was purchased when the venture was formed. Solutia exited the two-stage, light denier, industrial yarn business transitioning production from its Greenwood, SC site to the UNIFI-SANS Stoneville, North Carolina facility, a former Unifi manufacturing location. The UNIFI-SANS facility started initial production in January 2002 and was substantially on line by the end of September 2002.

Unifi manages the day-to-day production and shipping of the LDI produced in North Carolina and SANS Fibres handles technical support and sales. Sales from this entity are primarily to customers in the North American Free Trade Agreement (NAFTA) and Caribbean Basin Initiative (CBI) markets.

Through December 28, 2003 the joint venture has incurred substantial losses primarily as a result of start-up activities, difficulties in implementing manufacturing processes and technology and the quotation of lower than historical sales prices in an effort to secure new business in a difficult market. Efforts are underway to improve operating performance by focusing on improved manufacturing processes and technological performance.

Since the second quarter of fiscal 2003, management of the joint venture determined that on a quarterly basis it was appropriate to evaluate the above circumstances and their effect on the tangible and intangible long lived assets employed by the joint venture in an effort to determine if the carrying value of such assets may not be recoverable. During the December quarter, a test of the recoverability of its long lived assets, approximately $26.2 million as of December 28, 2003, was completed and it was determined that the carrying value of such assets was recoverable through expected future cash flows. UNIFI-SANS currently has two major customers that have long-term sales contracts which are in the process of being re-negotiated. The results of these negotiations could have an effect on the test of recoverability. The joint venture will continue to be monitored for the recoverability of its long lived assets as business conditions change.

On September 27, 2000, Unifi and Nilit Ltd., located in Israel, formed a 50/50 joint venture named U.N.F. Industries Ltd. The joint venture produces approximately 25.0 million pounds of nylon partially oriented yarn (POY) at Nilit’s manufacturing facility in Migdal Ha – Emek, Israel. Production and shipping of POY from this facility began in March 2001. The nylon POY is utilized in the Company’s nylon texturing and covering operations.

The Company continues to maintain a 34% interest in Parkdale America, LLC (“PAL”). PAL is a producer of cotton and synthetic yarns for sale to the textile and apparel industries primarily within North America. PAL has 16 manufacturing facilities primarily located in central and western North Carolina. See Note 15 “Subsequent Events” in the Condensed Consolidated Financial Statements for further information regarding this investment.

The Company also has a 16.1% interest in Micell Technologies, Inc.

Condensed balance sheet and income statement information as of December 28, 2003, and for the quarter and year-to-date periods ended December 28, 2003, of the combined unconsolidated equity affiliates is as follows (amounts in thousands):

	December 28, 2003
Current assets	$ 219,548
Noncurrent assets	171,834
Current liabilities	39,150
Shareholders’ equity and capital accounts	294,894

	Quarter Ended December 28, 2003	For the Six Months Ended December 28, 2003
Net sales	$ 120,178	$ 218,261
Gross profit	2,336	4,989
(Loss) income from operations	(3,881)	(6,690)
Net (loss) income	(1,208)	654

In the fourth quarter of fiscal year 2001, the Company recorded its share of the anticipated costs of closing DuPont’s Cape Fear, North Carolina facility. The charge totaled $15.0 million and represents 50% of the severance and dismantlement cost of closing this plant. The Cape Fear plant produced polyester POY and was one of two DuPont facilities involved in the Alliance further discussed in Note 12 “Alliance.” Now that the project is substantially complete the Company’s actual share of the severance and dismantlement costs is currently estimated to be $11.5 million. Accordingly, the Company reflected a reduction of previously recorded amounts of $3.5 million in the fiscal year ended June 29, 2003. The remaining obligation is included in accrued expenses on the Condensed Consolidated Balance Sheets.

Minority interest income was $1.1 million in the current year fiscal quarter compared to a charge of $0.8 million in the prior year second quarter. For the current and prior year-to-date periods, minority interest income was $2.1 million and a charge of $3.6 million, respectively. The minority interest income recorded in the consolidated financial statements primarily relates to the minority owner’s share of the earnings of Unifi Textured Polyester, LLC. The change in minority interest income/expense is due to a change, pursuant to the operating agreement, in the methodology used to allocate net earnings and cash flows.

In fiscal years 2001 and 2002, the Company recorded charges of $9.0 million for severance and employee termination related costs. The majority of these charges related to U.S. and European operations and included plant closings and consolidations, and the reorganization of administrative functions, resulting in the termination of approximately 750 employees including management, production workers and administrative support.

In fiscal year 2003, the Company recorded charges of $16.9 million for severance and employee related costs that were associated with the U.S. and European operations. Approximately 680 management and production level employees worldwide were affected by the reorganization. Severance payments are being made in accordance with various plan terms and the expected completion date is June 2005.

The table below summarizes changes to the accrued liability for the employee severance portion of the consolidation and cost reduction charge for the six months ended December 28, 2003:

(Amounts in thousands)	Balance at June 29, 2003	Fiscal 2004 Charge	Cash Payments	Balance at Dec. 28, 2003
Accrued Severance Liability	$ 13,893	$ 800	$(10,131)	$ 4,562

The Company’s income tax provision (benefit) for both current and prior year periods is different from the U.S. statutory rate due to income from certain foreign operations being taxed at lower effective rates and substantially no income tax benefits being recognized for the losses incurred by certain foreign subsidiaries as the recoverability of such tax benefits through loss carryforwards or carrybacks is not reasonably assured.

As a result of the above, the Company realized a net loss of $9.2 million, or $.18 loss per share for the current quarter, compared to a net loss of $2.2 million, or $.04 loss per share, for the corresponding quarter of the prior year, and a net loss of $13.8 million or $.26 loss per share for the current year-to-date period compared to net income of $2.2 million or $.04 per share for the prior year-to-date period.

The Company accounts for derivative contracts and hedging activities under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) which requires all derivatives to be recorded on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company does not enter into derivative financial instruments for trading purposes.

The Company conducts its business in various foreign currencies. As a result, it is subject to the transaction exposure that arises from foreign exchange rate movements between the dates that foreign currency transactions are recorded (export sales and purchase commitments) and the dates they are consummated (cash receipts and cash disbursements in foreign currencies). The Company utilizes some natural hedging to mitigate these transaction exposures. The Company also enters into foreign currency forward contracts for the purchase and sale of European, Canadian, Brazilian and other currencies to hedge balance sheet and income statement currency exposures. These contracts are principally entered into for the purchase of inventory and equipment and the sale of Company products into export markets. Counterparties for these instruments are major financial institutions.

Currency forward contracts are entered to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 60-80% of the sales value of these orders are covered by forward contracts. Maturity dates of the forward contracts attempt to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other income and expense. The Company also enters currency forward contracts for committed or anticipated equipment and inventory purchases. Generally, 50-75% of the asset cost is covered by forward contracts, although 100% of the asset cost may be covered by contracts in certain instances. Forward contracts are matched with the anticipated date of delivery of the assets and gains and losses are recorded as a component of the asset cost for purchase transactions the Company is firmly committed. The latest maturity for all outstanding purchase and sales foreign currency forward contracts are April 2004 and December 2004, respectively.

The dollar equivalent of these forward currency contracts and their related fair values are detailed below (amounts in thousands):

	December 28, 2003	June 29, 2003
Foreign currency purchase contracts:		
Notional amount	$ 5,776	$2,926
Fair value	5,622	2,658
Net (gain) loss	$ 154	$ 268

Foreign currency sales contracts:		
Notional amount	$19,355	$18,530
Fair value	19,284	17,945
Net (gain) loss	$ (71)	$ (585)

For the quarter ended December 28, 2003 and December 29, 2002, the total impact of foreign currency related items on the Condensed Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pre-tax gain of $0.0 million and $0.2 million, respectively.

Liquidity and Capital Resources

Cash used in operations was $3.0 million for the six months ended December 28, 2003, compared to cash provided by operations of $68.1 million for the corresponding period of the prior year. The primary sources of cash from operations were decreases in accounts receivable of $20.1 million and inventories of $3.3 million, and depreciation and amortization aggregating $33.7 million. Offsetting these sources of cash from operations, other than the net loss, were decreases in accounts payable of $26.4 million and accrued liabilities of $13.8 million. All working capital changes have been adjusted to exclude currency translation effects. The accounts payable decrease includes $25.0 million representing a delayed billing payment resulting from a vendor’s inability to invoice the Company due to a software conversion.

The Company ended the current quarter with working capital of $183.4 million, which included cash and cash equivalents of $59.3 million as compared to working capital of $181.5 million, which included cash and cash equivalents of $48.3 million at December 29, 2002.

The Company utilized $6.1 million for net investing activities and $9.6 million in net financing activities during the current year-to-date period. The primary cash expenditures during this period included $4.9 million for capital expenditures and $8.4 million for the purchase of approximately 1.2 million common shares of Company stock. During the quarter, the Company suspended its stock repurchase program.

At December 28, 2003 the Company was not committed for the purchase of any significant capital expenditures. The Company anticipates that capital expenditures for fiscal 2004 will approximate $10.0 million to $12.0 million.

On July 17, 2003, the Company announced that it has signed a non-binding letter of intent to acquire a majority position in Kaiping Polyester Enterprises Group Co. (“Kaiping”) in Kaiping, Guangdong, P.R. China to manufacture and sell certain polyester and nylon products. It is anticipated that Unifi will own seventy-five percent (75%) of the company after the transaction is completed, which is estimated to have approximately $300 million in annual sales.

Kaiping, a company owned and operated by the Kaiping City Government, is one of the largest polyester textile filament producers in China. Kaiping owns approximately 56% of Guangdong Kaiping Chunhui Co., Ltd, a publicly traded company on the Shenzhen Stock Exchange, which ownership interest is anticipated to be part of the assets Kaiping contributes to the joint venture.

On December 29, 2003, the Company announced that its discussions with Kaiping were continuing into 2004. While the Company cannot provide assurances that it will be successful in consummating this transaction due to a variety of factors, including obtaining approval by the regulatory authorities in China, it is continuing to make progress toward a definitive agreement which will be submitted for approval to the appropriate Chinese authorities. The Company has been informed by its advisors that the approval process could be a period of approximately six to nine months, or longer, after formal submission of a definitive agreement for review.

Due to the Company's financial results for the first six months of this fiscal year, management is reviewing all domestic and foreign operations in an effort to reduce costs. These efforts may result in future charges including plant closures, impairment charges for intangibles as well as property, plant and equipment; employee severance charges, and other write-offs.

The Company periodically evaluates the carrying value of its polyester and nylon operations long-lived assets, including property, plant and equipment and intangibles, to determine if such assets are impaired whenever events or changes in circumstances indicate that a potential impairment has occurred. The importation of fiber, fabric and apparel has continued to adversely impact sales volumes and margins for these operations and has negatively impacted the U.S. textile and apparel industry in general. See Note 10 to the Condensed Consolidated Financial Statements.

The Company has a $100.0 million asset based revolving credit agreement (the "Credit Agreement") that terminates on December 7, 2006. The Credit Agreement is secured by substantially all U.S. assets excluding manufacturing facilities and manufacturing equipment. Borrowing availability is based on eligible domestic accounts receivable and inventory.

As of December 28, 2003, the Company had no outstanding borrowings and had availability of $86.0 million under the terms of the Credit Agreement. Borrowings under the Credit Agreement bear interest at rates selected periodically by the Company of LIBOR plus 1.75% to 3.00% and/or prime plus 0.25% to 1.50%. The interest rate matrix is based on the Company's leverage ratio of funded debt to EBITDA, as defined by the Credit Agreement. The interest rate in effect at December 28, 2003, was 3.62%. Under the Credit Agreement, the Company pays an unused line fee ranging from 0.25% to 0.50% per annum on the unused portion of the commitment.

The Credit Agreement contains customary covenants for asset based loans which restrict future borrowings and capital spending and, if availability is less than $25.0 million at any time during the quarter, include a required minimum fixed charge coverage ratio of 1.1 to 1.0 and a required maximum leverage ratio of 5.0 to 1.0. At December 28, 2003, the Company was in compliance with all covenants under the Credit Agreement as it had availability in excess of $25.0 million.

Effective June 1, 2000, the Company and E.I. DuPont De Nemours and Company (DuPont) initiated a manufacturing alliance. The Alliance is intended to optimize Unifi's and DuPont's POY manufacturing facilities, increase manufacturing efficiency and improve product quality. Under the terms of the Alliance Agreements, DuPont and Unifi cooperatively run their polyester filament manufacturing facilities as a single operating unit. This consolidation involved the closing of the DuPont Cape Fear, North Carolina plant and optimizing production efficiencies by manufacturing commodity yarns for the Alliance in DuPont's Kinston, North Carolina plant and high-end specialty yarns in Yadkinville. The companies split equally the costs to complete the necessary plant consolidation and the benefits gained through asset optimization. Additionally, the companies collectively attempt to increase profitability through the development of new products and related technologies. Likewise, the costs incurred and benefits derived from the product innovations are split equally. DuPont and Unifi continue to own and operate their respective sites and employees remain with their respective employers. DuPont continues to provide POY to the marketplace and uses DuPont technology to expand the specialty product range at each company's sites. Unifi continues to provide textured yarn to the marketplace.

At termination of the Alliance or at any time after June 1, 2005, DuPont has the right but not the obligation to sell to Unifi (a "Put") and Unifi has the right but not the obligation to purchase from DuPont (a "Call"), DuPont's U.S. polyester filament business for a price based on a mutually agreed fair market value. In the event Dupont exercises its Put or Unifi exercises its Call prior to the end of the sixth year of the Alliance, the purchase price of Dupont's business shall be within a range of $300.0 million to $600.0 million. Dupont's right to put its U.S. polyester filament business to Unifi and Unifi's obligation to purchase such business are subject to certain conditions, including the ability of the Company to obtain a reasonable amount of financing on commercially reasonable terms. The Company believes that its ability to finance the purchase of Dupont's U.S. polyester filament business will be partially dependant upon the level of underlying cash flows generated by such business; and it is unclear whether the cash flow levels expected to be generated by the business are sufficient at this time to enable the Company to obtain such financing. In the event that the Company does not purchase the DuPont U.S. polyester filament business, DuPont would have the right but not the obligation to purchase the Company's domestic POY facility for a price based on a mutually agreed fair market value. In the event Dupont exercises the aforesaid right to purchase within twelve months of receipt of its "Notice of Exercise" to the Company, then the purchase price for the Company's domestic POY facility shall be within a range of $125.0 million to $175.0 million. See Note 14 for additional information involving the Alliance.

On November 17, 2004, Dupont and Koch Industries, Inc. (Koch) announced the potential purchase by Koch of certain Dupont textile facilities including the Dupont Kinston facility which is a part of the Alliance. The Company was subsequently requested, and granted its consent, to the transaction involving the Kinston facility. The Company has been informed that the closing date of the proposed transaction is expected in April 2004. Subsequent to the closing date, the Alliance Agreement will be between Koch and the Company.

As discussed in Note 10 to the Condensed Consolidated Financial Statements, the Company maintains a 34% interest in Parkdale America, LLC ("PAL"), which manufactures and sells open-end and air jet spun cotton. The Company was recently informed by PAL of its participation in activities with competitors in the markets for open-end and air jet spun cotton and polycotton yarns used in the manufacture of hosiery and other garments that may have resulted in violations of US antitrust laws. The Company had no involvement whatsoever in the activities at issue and believes it has no liability arising out of them.

PAL informed the Company that it voluntarily disclosed the activities to the U.S. Department of Justice Antitrust Division (the "DOJ"), and that the DOJ has launched an investigation of the activities. PAL informed the Company that it is cooperating fully with the DOJ. If PAL violated U.S. antitrust laws, PAL could face civil liability including treble damages.

The Company accounts for its investment in PAL on the equity method of accounting and as of December 28, 2003, the Company's carrying investment in PAL (including goodwill value) was $150.6 million. During the six months ended December 28, 2003, the Company had equity in earnings relating to PAL of $0.4 million. The Company is unable at this time to determine the level of damages for which PAL may be liable or the impact of such liability on the Company, which impact could be material. The Company is continuing to review the circumstances surrounding PAL's involvement in the activities.

The current business climate for U.S. based textile manufacturers continues to remain very challenging due to pressures from the importation of fiber, fabric and apparel, excess capacity, currency imbalances and weaknesses at retail. This situation presents a difficult business environment, and significant sustainable improvements cannot be assured presently. This highly competitive environment has impacted the markets in which the Company competes, both domestically and abroad. Consequently, management took certain consolidation and cost reduction actions during fiscal year 2003 in an attempt to align our capacity with current market demands. The Company is currently evaluating other restructuring actions which might be necessary to align its cost structure to market volumes. Management believes the current financial position of the Company in connection with its operations and its access to debt and equity markets are sufficient to meet working capital and long-term investment needs and pursue strategic business opportunities.

Forward Looking Statements

Certain statements included herein contain forward-looking statements within the meaning of federal security laws about Unifi, Inc.'s (the "Company") financial condition and results of operations that are based on management's current expectations, estimates and projections about the markets in which the Company operates, management's beliefs and assumptions made by management. Words such as "expects," "anticipates," "believes," "estimates," variations of such words and other similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in, or implied by, such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's judgment only as of the date hereof. The Company undertakes no obligation to update publicly any of these forward-looking statements to reflect new information, future events or otherwise.

Factors that may cause actual outcome and results to differ materially from those expressed in, or implied by, these forward-looking statements include, but are not necessarily limited to, availability, sourcing and pricing of raw materials, pressures on sales prices and volumes due to competition and economic conditions, reliance on and financial viability of significant customers, operating performance of joint ventures, alliances and other equity investments, technological advancements, employee relations, changes in construction spending, capital expenditures and long-term investments (including those related to unforeseen acquisition opportunities), continued availability of financial resources through financing arrangements and operations, outcomes of pending or threatened legal proceedings, negotiation of new or modifications of existing contracts for asset management and for property and equipment construction and acquisition, regulations governing tax laws, other governmental and authoritative bodies' policies and legislation, the continuation and magnitude of the Company's common stock repurchase program and proceeds received from the sale of assets held for disposal. In addition to these representative factors, forward-looking statements could be impacted by general domestic and international economic and industry conditions in the markets where the Company competes, such as changes in currency exchange rates, interest and inflation rates, recession and other economic and political factors over which the Company has no control. Other risks and uncertainties may be described from time to time in the Company's other reports and filings with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk: The Company is exposed to interest rate risk through its various borrowing activities. Substantially all of the Company's borrowings are in long-term fixed rate bonds. Therefore, the market rate risk associated with a 100 basis point change in interest rates would not be material to the Company at the present time.

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

Currency forward contracts are entered to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 60-80% of the sales value of these orders are covered by forward contracts. Maturity dates of the forward contracts attempt to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other income and expense. The Company also enters currency forward contracts for committed or anticipated equipment and inventory purchases. Generally, 50-75% of the asset cost is covered by forward contracts although 100% of the asset cost may be covered by contracts in certain instances. Forward contracts are matched with the anticipated date of delivery of the assets and gains and losses are recorded as a component of the asset cost for purchase transactions the Company is firmly committed. The latest maturity for all outstanding purchase and sales foreign currency forward contracts are April 2004 and December 2004, respectively.

The dollar equivalent of these forward currency contracts and their related fair values are detailed below (amounts in thousands):

	December 28, 2003	June 29, 2003
Foreign currency purchase contracts:		
Notional amount	$ 5,776	$ 2,926
Fair value	5,622	2,658
Net (gain) loss	$ 154	$ 268
Foreign currency sales contracts:		
Notional amount	$ 19,355	$18,530
Fair value	19,284	17,945
Net (gain) loss	$ (71)	$ (585)

The fair values of the foreign exchange forward contracts at the respective period-end dates are based on period-end forward currency rates. For the quarters ended December 28, 2003 and December 29, 2002, the total impact of foreign currency related items on the Condensed Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pre-tax gain of $0.0 million and $0.2 million, respectively.

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

Item 4. Controls and Procedures

The Company maintains controls and procedures that are designed to ensure that information required to be disclosed in the Company's financial statements filed pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported in a timely manner, and that such information is accumulated and communicated to the Company's management, specifically including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 28, 2003.

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the Company's internal controls over financial reporting

Part II. Other Information

Item 1. Legal Proceedings

On January 13, 2004, Unifi received a Demand For and Notice of Arbitration dated January 12, 2004 (the “Arbitration Notice”). The Arbitration Notice claims that the Company breached its “Transition Period” purchasing obligation from DuPont and implied covenant of good faith and fair dealing to DuPont under the terms of the POY Manufacturing Alliance Agreements dated June 1, 2000. In the Arbitration Notice, Dupont claims the damage to it by the Company is “not less than approximately $13 million in damages”.

On February 5, 2004, the Company filed a response to the Arbitration Notice denying Dupont’s claims and asserting several defenses to the claims. However, the outcomes of theses claims are uncertain at this time and the ultimate resolution of these matters could be material to Unifi’s financial position, results of operations and cash flows. Due to the complex nature of Dupont’s claims, the Company, at this time, is not able to reasonably estimate an appropriate reserve for Dupont’s claims.

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

The Shareholders of the Company at their Annual Meeting held on the 22nd day of October 2003, considered and voted to adopt and approve the amendment to the Company’s Restated Certificate of Incorporation to decrease the required minimum number of Directors on the Board of Directors from nine (9) to seven (7), (Proposal No. 1) as follows:

	Votes in Favor	Votes Against	Votes Abstaining
Proposal No. 1	47,970,392	133,917	21,827

Upon approval of Proposal No. 1 the Shareholders elected the following nominated Board Members to serve until the Annual Meeting of the Shareholders in 2004 or until their successors are elected and qualified, as follows:

Name of Director	Votes in Favor	Votes Against	Votes Abstaining
William J. Armfield, IV	47,428,724	0	697,412
R. Wiley Bourne, Jr.	47,299,998	0	826,138
Charles R. Carter	47,652,607	0	473,529
Sue W. Cole	47,657,099	0	469,037
J. B. Davis	47,660,874	0	465,262
Kenneth G. Langone	36,001,911	0	12,124,225
Donald F. Orr	46,355,815	0	1,770,321
Brian R. Parke	47,725,139	0	400,997
G. Alfred Webster	47,650,927	0	475,209

The information set forth under the headings “Proposal to Amend the Restated Certificate of Incorporation to Decrease the Minimum Number of Directors on the Board of Directors from Nine (9) to Seven (7) Members”, “Election of Directors”, “Nominees for Election as Directors”, and “Beneficial Ownership of Common Stock by Directors and Executive Officers” on Pages 2-6 of the Definitive Proxy Statement filed with the Commission since the close of the registrant’s fiscal year ending June 29, 2003 is incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(10)	Severance Agreement effective October 31, 2003, by and between Unifi, Inc. and Willis C. Moore, III, filed herewith.
(31a)	Chief Executive Officer’s certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
(31b)	Chief Financial Officer’s certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
(32a)	Chief Executive Officer’s certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
(32b)	Chief Financial Officer’s certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

(b) Reports on Form 8-K

The following report on Form 8-K was furnished during the fiscal quarter ended December 28, 2003:

October 23, 2003: Item 12. Results of Operations and Financial Condition. First Quarter Earnings Release.

The following report on Form 8-K was filed during the fiscal quarter ended December 28, 2003:

December 16, 2003: Item 5. Other Events. Press Release: William (Bill) M. Lowe, Jr. Named Chief Financial Officer for Unifi, Inc.

Signatures

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

		UNIFI, INC.
Date:	February 10, 2004	/s/ WILLIAM M. LOWE, JR.
		William M. Lowe, Jr. Vice President and Chief Financial Officer (Mr. Lowe is the Principal Financial Officer and has been duly authorized to sign on behalf of the Registrant.)

(Exhibit 10)
SEVERANCE AGREEMENT

This SEVERANCE AGREEMENT ("Agreement") effective the 31st day of October, 2003 (the "Effective Date"), by and between UNIFI, INC., a New York corporation (hereinafter referred to as "UNIFI" or the "Company"), and WILLIS C. MOORE, III (hereinafter referred to as "EMPLOYEE");

W I T N E S S E T H:

WHEREAS, EMPLOYEE has been employed by UNIFI; and

WHEREAS, the Company and EMPLOYEE have determined that the EMPLOYEE'S employment with the Company will be terminated on the Effective Date under the terms of this Agreement; and

WHEREAS, under the terms set forth in this Agreement, EMPLOYEE and UNIFI agree to settle any and all claims, obligations and/or causes of action that one may have against the other arising from EMPLOYEE'S employment with the Company; and

WHEREAS, EMPLOYEE HEREBY ACKNOWLEDGES THAT HE WAS UNDER NO OBLIGATION WHATSOEVER TO ACCEPT THE TERMS OF THIS AGREEMENT, AND THAT PRIOR TO EXECUTING THIS AGREEMENT HE WAS GIVEN THE OPPORTUNITY TO REQUEST A COPY OF THIS AGREEMENT AND DELAY HIS DECISION WHETHER OR NOT TO ACCEPT THE TERMS OF THIS AGREEMENT FOR UP TO FORTY-FIVE (45) DAYS FOR ANY REASON, INCLUDING TO CONFER WITH ANY LAWYER OR OTHER ADVISOR HE MAY WISH TO CONSULT; and

WHEREAS, EMPLOYEE also acknowledges that he has received a document identifying the job title and age of each employee in his decisional unit, and whether or not each employee was selected for termination.

NOW, THEREFORE, in consideration of these premises and mutual agreements herein contained, and intending to be legally bound hereby, the Parties agree as follows:

SECTION 1. CONSIDERATION - UNIFI agrees to pay EMPLOYEE the sum of Seven Hundred Forty Thousand Sixteen Dollars and 00/100 ($740,016.00) as severance due to termination of his employment with Unifi (the "Severance Payment"). The Promissory Note Balance of $70,344.02 as set forth in Section 8A below plus an additional $31,654.81 in United States and North Carolina withholding taxes on the Promissory Note Balance (i.e. $70,344.02 x .45) shall be deducted from the Severance Payment to get the resulting balance of severance due to EMPLOYEE of Six Hundred Thirty-eight Thousand seventeen Dollars and 17/100 ($638,017.17) (the "Resulting Severance Payment"). The Resulting Severance

Payment shall be paid to EMPLOYEE in twenty (20) equal monthly installments of Thirty Thousand Eight Hundred Thirty-Four Dollars and 00/100 ($30,834.00) beginning on the regular payroll date for salaried employees of UNIFI in November 2003 and continuing until June 2005 and one final monthly installment of Twenty-one Thousand Three Hundred Thirty-seven Dollars and 17/100 ($21,337.17) on the regular payroll date for salaried employees of UNIFI in July 2005 (the "Monthly Payments"). Each such Monthly Payment will be subject to all applicable federal and state taxes. The parties agree that the Company has no prior legal obligation to make the Severance Payment or to provide any of the other benefits set forth in this Agreement to the EMPLOYEE.

SECTION 2. RESIGNATION FROM COMPANY - On the Effective Date, EMPLOYEE shall execute a written Resignation in the form of Exhibit "A" attached hereto resigning as an employee of the Company.

SECTION 3A. MEDICAL AND DENTAL INSURANCE - UNIFI will continue to provide EMPLOYEE medical and dental coverage similar to the medical and dental coverages at that time being provided to regular employees covered by the terms of the Unifi, Inc. Employee Welfare Benefit

Plan then in effect (the "Medical Plan"), until the earlier of the last day of the month in which EMPLOYEE attains the age of 65 years or until such time as EMPLOYEE has began new employment, including gainful self-employment (as determined by Unifi in its sole discretion). EMPLOYEE shall be eligible to receive such medical and dental benefits in order that he may obtain coverage for himself and his dependents, as the term "dependent" is defined in the medical plan, so that the following shall apply to coverage of EMPLOYEE and his dependents.

(A) As a condition of coverage of EMPLOYEE, he must pay for each month of coverage an amount equal to the premium paid for such month by an active employee for coverage under the Medical Plan. During the time when Monthly Payments, if any, are being made, such premiums shall be paid by deductions from such installments unless UNIFI in its sole discretion determines otherwise. Thereafter, such premiums shall be due on the first day of the month to which they apply, and the medical and dental coverage shall be terminated unless such premiums are received when due, without any grace period.

(B) As a condition of coverage of a Dependent, EMPLOYEE must pay for each month of coverage an amount equal to the premium paid for such month by any active employee for coverage of a Dependent under the Medical Plan. During the time when Monthly Payments, if any, are being made, such premiums shall be paid by deductions from such installments unless UNIFI in its sole discretion determines otherwise. Thereafter, such premiums shall be due on the first day of the month to which they apply, and the medical and dental coverage shall be terminated unless such premiums are received when due, without any grace period.

(C) The terms of medical and dental coverage for EMPLOYEE and his Dependents at any given time shall be the terms applicable to active employees and their Dependents at such time. It is explicitly understood and agreed that any amendments to or alteration of the Medical Plan (including any amendment terminating the Medical Plan) may be applicable to EMPLOYEE and his Dependents without regard to whether the amendment or alteration was adopted or made before or after the Effective Date, and/or the date EMPLOYEE entered into this Agreement and/or chose not to revoke this Agreement. It is explicitly understood and agreed that a Dependent will lose medical and dental coverage on the earlier of the last day of the month in which EMPLOYEE attains the age of 65 years or until such time as EMPLOYEE has began new employment, including gainful self-employment (as determined by Unifi in its sole discretion). It is explicitly understood and agreed that no benefits under the Employee Welfare Plan will be provided (including, without limitation, benefits under the portions of the Welfare Benefit Plan that provide benefits in the event of disability, life insurance coverage, and accidental death and dismemberment coverage) except as specifically provided herein.

SECTION 3B. COBRA, ETC. - It is understood that this Agreement does not waive or abrogate EMPLOYEE'S entitlement to health insurance benefits under COBRA or to vested retirement funds in UNIFI'S retirement plans. Any retirement benefits to which EMPLOYEE is entitled shall be governed by the terms of such retirement plans.

SECTION 4. OTHER BENEFITS AND AGREEMENTS -

a. UNIFI agrees to provide and pay for all reasonable outplacement services of EMPLOYEE until the sooner of October 31, 2004 or until such time as EMPLOYEE has obtained new employment.

b. EMPLOYEE agrees that except as specifically set forth in this Agreement no other provision is granted for continued vacation pay, automobile allowance, education renewal, tuition reimbursement, mobile telephone service or other benefits of any nature, type or kind after the Effective Date, and that he will return to UNIFI or any subsidiary or affiliate of UNIFI all company property, documents, notes, software, programs, data and any other materials (including any copies thereof) in his possession. EMPLOYEE does hereby consent and agree that he shall have no other right, claim, demand or interest of any nature, type or kind or commence any type of legal action (including administrative charges or lawsuits) against UNIFI, its subsidiaries or affiliates, and any of their officers, directors, shareholders, representatives, counsel, or agents.

SECTION 5. TAXES - EMPLOYEE will be responsible for any federal, state or local taxes which may be owed by him by virtue of the receipt of any portion of the consideration herein provided.

SECTION 6. UNVESTED RESTRICTED STOCK AWARDS -EMPLOYEE under the 1999 Unifi, Inc. Long-Term Incentive Plan was awarded on October 21, 1999 5,000 shares of Unifi, Inc. restricted stock and executed a Restricted Stock Agreement in connection with said award ("Restricted Agreement"). The Committee, in exercising its authority under the Plan and contingent on EMPLOYEE fulfilling all his obligations under the term of this Agreement, hereby modifies the Restricted Agreement to provide that the 1,000 unvested shares of restricted stock awarded to EMPLOYEE shall be fully vested as of the Effective Date. All other terms and conditions of the Restricted Agreements shall remain in full force and effect as written. This provision of the Agreement shall be null and void and said 1,000 unvested shares of restricted stock shall lapse under the terms of the Restricted Agreement if EMPLOYEE, in the sole and absolute discretion of UNIFI, does not meet all of his obligations under the term of this Agreement in a timely manner.

SECTION 7. STOCK OPTIONS - EMPLOYEE was granted stock options under Unifi, Inc.'s 1992 Incentive Stock Option Plan, 1996 Non-Qualified Stock Option Plan, 1996 Incentive Stock Option Plan, 1997 Non-Qualified Stock Option Plan, and 1999 Long-term Incentive Plan. EMPLOYEE has 290,212 stock options outstanding under the above-referenced stock option plans of which 206,965 are currently vested. It is hereby agreed that as long as EMPLOYEE has not breached the terms of this Agreement, that the termination date for all previously vested outstanding stock options of the EMPLOYEE under all appropriate stock option agreements between the Company and the EMPLOYEE shall be modified and amended to mean October 31, 2005, and EMPLOYEE shall have until that date to exercise all such previously vested unexercised options. It is further agreed that at such time as EMPLOYEE has paid all amounts due and owing to the Company hereunder (including those amounts due to the Company under Section 8 hereof) any currently outstanding unvested options shall vest and shall be exercisable by EMPLOYEE until October 31, 2005. If EMPLOYEE shall breach any of the provisions of this Agreement, all such stock options (whether currently vested or unvested) shall immediately terminate and EMPLOYEE will not be entitled to exercise any of his stock options. The terms of the aforementioned stock option agreements shall hereafter be deemed modified and amended to give effect to this Section 7 and all such stock options shall be deemed and treated as non-qualified stock options. All other terms of said stock option agreements shall continue in full force and effect as previously agreed to.

SECTION 8. OTHER AGREEMENTS -

A. PROMISSORY NOTES - EMPLOYEE previously executed Promissory Notes dated October 21, 1999 in the principal amount of $25,171.88 and December 31, 2000 in the principal amount of $41,851.35 to UNIFI. The total amount due on said promissory notes of $70,344.02 (the "Promissory Note Balance") ($25,171.88 principal and $1,274.68 accrued interest from January 1 to October 31, 2003 on the October 21, 1999 promissory note + $41,851.35 principal and $2,046.11 accrued interest from January 1 to October 31, 2003 on the December 31, 2000 promissory note) shall be deducted from the Severance Payment as set forth in Section 1 hereof.

B. COLLATERAL ASSIGNMENT SPLIT DOLLAR LIFE INSURANCE AGREEMENT EFFECTIVE JANUARY 1, 2000 (the "Collateral Agreement", the terms of which are incorporated herein by reference) - On or before December 31, 2003, EMPLOYEE will:

i. Pay UNIFI an amount, as determined by Unifi in its sole discretion, equal to the short-fall in the cash surrender value of the Phoenix Policy (Phoenix Home Life Mutual Insurance Company policy #2764545) (the "Short-fall Payment", being the amount due UNIFI by the EMPLOYEE pursuant to the terms of the Collateral Assignment, the terms of which are incorporated herein by reference) and pursuant to Section 4.2 of the Collateral Agreement, assign to UNIFI all of his interest in the Policy. EMPLOYEE will execute such other and further documentation as requested by UNIFI (in UNIFI'S sole discretion) as is necessary to transfer any and all interests of EMPLOYEE in the Policy to UNIFI; or

ii. Pay or cause his new Employer to pay to UNIFI an amount equal to the total aggregate premiums paid by UNIFI on the Phoenix Policy. After receipt of such reimbursement of total aggregate premiums by UNIFI, UNIFI shall assign all of its interests in the Policy and the Split Dollar Agreement to such new employer of EMPLOYEE.

Should EMPLOYEE notify UNIFI on or before December 10, 2003, that he will be obligated to pay UNIFI the Short-fall Payment, UNIFI shall pay to EMPLOYEE as an additional severance payment on the regular payroll date for salaried employees of Unifi in December 2003, an amount equal to the Short-fall Payment as provided in subsection 8.b. above. Such additional severance payment will be grossed up for all applicable federal and state withholding taxes, as determined by UNIFI in its sole discretion, such that the net additional proceeds shall equal the Short-fall Payment.

C. SPLIT DOLLAR LIFE INSURANCE AGREEMENT EMPLOYEE-OWNER DATED AUGUST 24, 1995 (the "Split Dollar Agreement", the terms of which are incorporated herein by reference) - On or before December 31, 2003, EMPLOYEE will:

i. Pay or cause his new Employer to pay to UNIFI an amount equal to the total aggregate premiums paid by UNIFI on Massachusetts Mutual Life Insurance Company Policy 6,148,570 (the "Mass Mutual Policy"). After receipt of such reimbursement of total aggregate premiums by UNIFI, UNIFI shall assign all of its interests in the Mass Mutual Policy and the Split Dollar Agreement to the EMPLOYEE or such new employer of EMPLOYEE; or

ii. Notify Unifi that he is not going to repay the total aggregate premiums paid by UNIFI on said Mass Mutual Policy, but, instead assign to UNIFI all of his interest in such policy. EMPLOYEE will execute such other and further documentation as requested by UNIFI (in UNIFI'S sole discretion) as is necessary to transfer any and all interests of EMPLOYEE in the Mass Mutual Policy to UNIFI.

E. COOPERATION - EMPLOYEE agrees to fully cooperate with and assist UNIFI in transitioning his work assignments to others in the Company and understands that he may be needed by the Company as a witness in certain arbitration and/or litigation matters that the Company is or may in the future be involved in that involve matters of which he participated in while in the employment of the Company, including but not limited to arbitration(s) proceedings with E.I. Dupont de Nemours & Co., Invista or their successors in interest, and the EMPLOYEE agrees that he will provide reasonable assistance to the Company in such arbitrations/litigations and testify for the Company as reasonably requested by the Company.

SECTION 9. DISCLOSURE OF CONFIDENTIAL INFORMATION - EMPLOYEE agrees that:

(A) For a period of five (5) years from the date of this Agreement, he will not disclose or make available to any person or other entity any trade secrets, confidential information, as hereinafter defined, or "know-how" relating to UNIFI'S, its affiliates' and subsidiaries', businesses without written authority from UNIFI'S General Counsel, unless he is compelled to disclose it by judicial process.

CONFIDENTIAL INFORMATION - shall mean all information about UNIFI, its affiliates or subsidiaries, or relating to any of their products or any phase of their operations, not generally known to their competitors or which is not public information, which EMPLOYEE knows or acquired knowledge of during the term of his employment.

(B) DOCUMENTS - under no circumstances shall EMPLOYEE remove from UNIFI'S offices any of UNIFI'S books, records, documents, files, computer discs or information, reports, presentations, customer lists, or any copies of such documents without UNIFI'S written consent, nor shall he make any copies of UNIFI'S books, records, documents, or customer lists for use outside of UNIFI, except as specifically authorized in writing by UNIFI'S General Counsel.

SECTION 10. NON-COMPETE -

(A) EMPLOYEE agrees that for a period of two (2) years from the Effective Date he will not, in a capacity which actually competes with UNIFI, seek employment or consulting arrangements with or offer advice, suggestions, or input to any company, entity or person, which may be construed to be UNIFI'S competitor, and

(B) EMPLOYEE agrees that he will not directly or indirectly, for a period of two (2) years from the Effective Date, own any interest in, other than ownership of less than two percent (2%) of any class of stock of a publicly held corporation, manage, operate, control, be employed by, render advisory services to, act as a consultant to, participate in, assess or be connected with any competitor, as hereinafter defined, in a capacity which actually competes with Unifi, unless approved by the General Counsel of UNIFI.

COMPETITOR - shall mean any company (incorporated or unincorporated), entity or person engaged, with respect to EMPLOYEE'S employment, in the business of developing, producing, or distributing a product similar to any product produced by UNIFI, its affiliates or subsidiaries, prior to the Effective Date. The parties hereby mutually acknowledge and agree that the nonwovens business is not included in the above definition.

SECTION 11. BREACH - EMPLOYEE understands and agrees that UNIFI'S obligation to perform under this Agreement is conditioned upon EMPLOYEE'S covenants and promises to UNIFI as set forth herein. In the event EMPLOYEE breaches any such covenants and promises, or causes any such covenants or promises to be breached, UNIFI in its sole and absolute discretion shall have the option to terminate its performance of its obligations under this Agreement, and UNIFI shall have no further liability or obligation to EMPLOYEE. EMPLOYEE acknowledges that compliance with Sections 9 and 10 of this Agreement is necessary to protect UNIFI'S businesses and goodwill; a breach of said paragraph will do irreparable and continual damage to UNIFI and an award of monetary damages would not be adequate to remedy such harm; therefore, in the event he breaches or threatens to breach this Agreement, UNIFI shall be entitled to both a preliminary and permanent injunction in order to prevent the continuation of such harm. Nothing in this Agreement however, shall prohibit UNIFI from also pursuing any other remedies.

SECTION 12. RELEASES AND WAIVERS OF EACH PARTY - The parties hereto agree as follows:

(A) EMPLOYEE hereby fully, completely and unconditionally releases and forever discharges any and all claims, rights, demands, actions, obligations, liabilities, and causes of action of any and every kind, which he or his heirs, personal representatives or assigns ever had, or now have, or hereafter may have (based on events transpiring on or before the Effective Date) against UNIFI, its subsidiaries and affiliates and their respective officers, directors, shareholders, representatives, counsel and agents, in each case past or present, of whatsoever kind and nature, in law, equity or otherwise, arising out of or in any way connected with his employment, association or other involvement or any type, nature and kind with UNIFI. THIS RELEASE AND WAIVER INCLUDES BUT IS NOT LIMITED TO CLAIMS ARISING UNDER FEDERAL, STATE OR LOCAL LAWS PROHIBITING EMPLOYMENT DISCRIMINATION (INCLUDING THE AGE DISCRIMINATION IN EMPLOYMENT ACT, TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, AND THE AMERICAN WITH DISABILITIES ACT) OR CLAIMS GROWING OUT OF ANY LEGAL RESTRICTIONS ON THE COMPANY'S RIGHTS TO TERMINATE ITS EMPLOYEES.

(B) UNIFI hereby fully, completely and unconditionally releases and forever discharges any and all claims, rights, demands, actions, obligations, liabilities, and causes of action of any and every kind, which it, its successors or assigns ever had, or now have, or hereafter may have (based on events transpiring on or before the Effective Date) against EMPLOYEE, his heirs, personal representatives or assigns, in each case past or present, of whatsoever kind and nature, in law, equity or otherwise, arising out of or in any way connected with his employment, association or other involvement with UNIFI.

(C) EMPLOYEE ACKNOWLEDGES THAT HE HAS READ AND FULLY UNDERSTANDS THE PROVISIONS OF THIS AGREEMENT, HAS HAD SUFFICIENT TIME TO EVALUATE THE TERMS OF THIS AGREEMENT, HAS BEEN ADVISED TO CONSULT WITH COUNSEL BEFORE SIGNING THIS AGREEMENT, AND FREELY AND WITHOUT RESERVATIONS ENTERS INTO THIS AGREEMENT AND THE WAIVERS AND RELEASES CONTAINED HEREIN. EMPLOYEE hereby further acknowledges that in making this Agreement and Release that he understands that he is relying upon his own judgment, belief and knowledge of the extent and nature of said claims and payments or that of his own advisors and expressly acknowledges and confirms that he has not been influenced to any extent whatsoever in making this Agreement and Release by any representations or statements regarding any payments, claims or conditions or regarding any other matters as made by any other person connected with or represented by any of the Parties of this Agreement.

(D) The Parties hereto agree that this is a compromised settlement of a doubtful and disputed claim or right to act and the payment of the funds herein and the performance of this Agreement shall not be construed as an admission of liability or responsibility on the part of any of the Parties hereto other than expressly provided for herein. This Agreement shall be deemed to be strictly confidential by and between these Parties and by express agreement and understanding this Agreement shall not be deemed, referenced, cited or referred to by the Parties hereto or any other third parties relating to EMPLOYEE'S employment with UNIFI, nor shall this Agreement be used as evidence in any litigation between and among the Parties to this Agreement (or any other third parties) except to establish only between the Parties to this Agreement specifically the terms and conditions set forth therein. Further, the Parties hereby covenant and agree that upon the execution of this document and prior thereto that they have not nor will they in the future discuss with anyone the terms and conditions of this Agreement or anything pertaining to the terms and conditions of this Agreement, the negotiation of the terms and conditions of this Agreement, the settlement terms and conditions of this Agreement or the details of this Agreement, except as required by court order or with the written consent of all parties to this Agreement. Further, all Parties hereto agree that upon receipt of a subpoena or any formal legal request for information covered by or contained in this Agreement that they will as soon as practical notify one another in writing of such pending request to the persons at the addresses set forth herein and that the terms of this Agreement shall remain confidential and shall only be disclosed by any Party hereto as that Party is ordered to do so by a court of competent jurisdiction, or as required for the preparation of any state or federal tax return.

SECTION 13. WAIVER OF RIGHTS - If, in one or more instances, either Party fails to insist that the other Party perform any of the terms of this Agreement, such failure shall not be construed as a waiver by such Party of any past, present, or future right granted under this Agreement, and the obligations of both Parties under this Agreement shall continue in full force and effect.

SECTION 14. SURVIVAL - Except for a termination of this Agreement by EMPLOYEE within seven days of the execution of this Agreement as set forth in Section 22 of this Agreement, the obligations contained in this Agreement shall survive the termination of this Agreement. Additionally, the EMPLOYEE acknowledges that the restrictions and covenants contained in paragraphs 9 and 10 are reasonable and necessary to protect the legitimate business interests of the Company and will not impose an economic hardship on the EMPLOYEE. If any provision of this Agreement is held to be in any respect illegal, invalid or unenforceable under present or future law, such provisions shall be fully severable and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provisions had never comprised a part hereof, and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance here from. Furthermore, in lieu of such illegal, invalid or unenforceable provision, the same shall be reformed and modified automatically to be as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable. In addition, the termination of this Agreement shall not affect any of the rights or obligations of either party arising prior to, or at the time of, the termination of this Agreement, or which may arise by any event causing the termination of this Agreement.

SECTION 15. NOTICES - Any notice required or permitted to be given under this Agreement shall be sufficient, if in writing and if sent by registered or certified mail, postage prepaid, or telecopier to:

EMPLOYEE
3801 Round Hill Road
Greensboro, NC 27408

and to:

UNIFI
Attn: Charles F. McCoy
7201 W. Friendly Avenue (27410)
P.O. Box 19109
Greensboro, NC 27419-9109
Fax: (336) 856-4364

SECTION 16. ASSIGNMENT - The rights and obligations of UNIFI under this Agreement shall inure to the benefit of and be binding upon its successors and assigns. The rights and obligations of EMPLOYEE under this Agreement shall inure to the benefit of and be binding upon his heirs, personal representative, successors and assigns. This Agreement may not be assigned or otherwise transferred voluntarily or involuntarily by EMPLOYEE.

SECTION 17. ARBITRATION - In the event of any differences of opinion or disputes, between EMPLOYEE and UNIFI, with respect to the construction or interpretation of this Agreement or the alleged breach thereof, which cannot be settled amicably by agreement of the Parties, such disputes shall be submitted to and determined by arbitration by a single arbitrator in the City of Greensboro, North Carolina, in accordance with the rules of the American Arbitration Association and judgment upon the award shall be final, binding and conclusive upon the Parties and may be entered in the highest court, state or federal, having jurisdiction.

SECTION 18. APPLICABLE LAW - This Agreement shall be interpreted and construed under the laws of North Carolina.

SECTION 19. ENTIRE AGREEMENT - This Agreement contains the entire agreement of the Parties and supersedes all prior agreements and understandings, oral or written, if any, relating to the EMPLOYEE'S employment and termination of employment with

the Company, except that any Confidentiality Agreements that were previously executed by EMPLOYEE before or during the term of his employment with UNIFI remain in full force and effect. If there are any conflicts in the terms of this Agreement and such other Confidentiality Agreements, the terms of this Agreement shall control. This Agreement may not be changed or altered, except by an agreement in writing signed by the Party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

SECTION 20. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original for all purposes and all of which shall be deemed collectively to be one agreement, but in making proof hereof it shall be necessary to exhibit only one such counterpart.

SECTION 21. CONTINUING OBLIGATIONS. EMPLOYEE hereby agrees that he will execute from time to time after the Effective Date any and all such documents, agreements, instruments, certifications, consents, statements, waivers, and/or releases as UNIFI shall request as is necessary to implement and institute the intents and purposes of this Agreement. Additionally, EMPLOYEE acknowledges and agrees that UNIFI shall have the right to set off any obligations owed by EMPLOYEE to UNIFI against the Severance Payment and/or Monthly Payments and other benefits granted to EMPLOYEE by UNIFI under the terms of this Agreement.

SECTION 22. EMPLOYEE'S RIGHT TO REVOKE - NOTWITHSTANDING OTHER PROVISIONS HEREIN TO THE CONTRARY, EMPLOYEE HAS THE RIGHT TO REVOKE THIS AGREEMENT AND ACCEPTANCE OF SEVERANCE PAY PROVIDED HEREIN WITHIN SEVEN (7) DAYS FROM THE DATE EMPLOYEE EXECUTES THIS AGREEMENT. TO EXERCISE THIS RIGHT TO REVOKE, EMPLOYEE MUST NOTIFY THE COMPANY IN WRITING OF HIS DECISION TO REVOKE AS SET FORTH IN SECTION 15 OF THIS AGREEMENT.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under their respective hands and seals as of the day and year first above written.

EMPLOYEE:

(Seal)

WILLIS C. MOORE, III

UNIFI, INC.

BY:

CHARLES F. MCCOY
Vice President

EXHIBIT "A"

RESIGNATION

Pursuant to the terms of an Agreement effective October 31, 2003, by and between UNIFI, INC. (the "Company") (the terms of which Agreement are incorporated herein by reference) and WILLIS C. MOORE, III ("EMPLOYEE"), EMPLOYEE does hereby resign as an employee, officer, director, manager or from any other positions of the Company and/or any of its subsidiaries or affiliates.

This resignation is effective the 31st day of October 2003.

(SEAL)

WILLIS C. MOORE, III

EXHIBIT (31a)

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Brian R. Parke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Unifi, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 10, 2004

/s/ BRIAN R. PARKE

Brian R. Parke
Chief Executive Officer

EXHIBIT (31b)

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, William M. Lowe, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Unifi, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 10, 2004

/s/ WILLIAM M. LOWE, JR.

William M. Lowe, Jr.
Vice President and Chief Financial Officer

EXHIBIT (32a)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Unifi, Inc. (the “Company”) Quarterly Report on Form 10-Q for the period ended December 28, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brian R. Parke, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	February 10, 2004	By:	/s/ BRIAN R. PARKE
			Brian R. Parke President and Chief Executive Officer

EXHIBIT (32b)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Unifi, Inc. (the “Company”) Quarterly Report on Form 10-Q for the period ended December 28, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William M. Lowe, Jr., Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	February 10, 2004	By:	/s/ WILLIAM M. LOWE, JR.
			William M. Lowe, Jr. Vice President and Chief Financial Officer