

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

For the quarterly period ended December 25, 1994

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 its charter)

New York 11-2165495
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

P.O. Box 19109 - 7201 West Friendly Road 27419
Greensboro, NC (Address of principal executive offices) (Zip Code)

(910) 294-4410

(Registrant's telephone number, including area code)

Same

(Former name, former address and former fiscal year,
if changed since last report)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at December 25, 1994
Common Stock, par value \$.10 per share	68,212,035 Shares

Part I. Financial Information

UNIFI, INC.

Condensed Consolidated Balance Sheets

	December 25, 1994 (Unaudited)	June 26, 1994 (Audited)
	(Amounts in Thousands)	
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$58,233	\$80,653
Short-Term Investments	59,770	71,483
Accounts Receivable, Net	188,802	200,537
Inventories		
Raw Materials and Supplies	\$58,308	\$29,797
Work in Process	12,248	12,937
Finished Goods	52,815	57,545
	\$123,371	\$100,279
Other Current Assets	1,588	3,605
Total Current Assets	\$431,764	\$456,557
Property, Plant and Equipment	\$879,043	\$848,637
Less: Accumulated Depreciation	366,448	336,375
	\$512,595	\$512,262
Investments in Affiliates	\$11,616	\$10,626
Other Assets	\$24,751	\$23,807
Total Assets	\$980,726	\$1,003,252

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Notes Payable	\$--	\$25
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Accounts Payable	87,325	83,831
Accrued Expenses	45,219	56,295
Income Taxes	10,257	12,132
Total Current Liabilities	\$142,801	\$152,283
Long-Term Debt	\$230,000	\$230,000
Deferred Income Taxes	\$34,699	\$32,447
Shareholders' Equity		
Common Stock	\$6,821	\$7,043
Capital in Excess of Par	144,372	199,959
Retained Earnings	422,225	385,472
Cumulative Translation Adjustment	(365)	(3,060)
Reserve for Investments	173	(892)
Total Shareholders' Equity	\$573,226	\$588,522
Total Liabilities and Shareholders' Equity	\$980,726	\$1,003,252

See Accompanying Notes to Condensed Consolidated Financial Statements.

UNIFI, INC.

Condensed Consolidated Statements of Income

(Unaudited)

	For the Quarters Ended		For the Six Months Ended	
	Dec. 25, 1994	Dec. 26, 1993	Dec. 25, 1994	Dec. 26, 1993
	(Amounts in Thousands Except Per Share Data)			
Net Sales	\$387,297	\$351,516	\$746,491	\$676,871
Costs and Expenses:				
Cost of Goods Sold	\$332,182	\$298,952	\$643,042	\$578,582
Selling, General & Administrative Exp.	10,287	10,185	19,961	19,758
Interest Expense	3,935	4,186	7,873	9,279
Interest Income	(2,401)	(2,007)	(5,053)	(4,720)
Other (Income) Expense	(2,259)	(268)	(2,838)	(64)
	\$341,744	\$311,048	\$662,985	\$602,835
Income Before Income Taxes	\$45,553	\$40,468	\$83,506	\$74,036
Income Taxes	17,433	16,107	32,697	29,863
Net Income	\$28,120	\$24,361	\$50,809	\$44,173
Earnings Per Share:				
Primary	\$.40	\$.34	\$.72	\$.62
Fully Diluted	\$.39	\$.34	\$.70	\$.61
Cash Dividends Per Share	\$.10	\$.14	\$.20	\$.28
Average Shares Outstanding: Primary	70,216	71,027	70,584	71,059
Fully Diluted	77,970	78,806	78,337	78,824

See Accompanying Notes to Condensed Consolidated Financial Statements.

UNIFI, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Six Months Ended	
	Dec. 25, 1994	Dec. 26, 1993
	(Amounts in Thousands)	
Cash and Cash Equivalents Provided by Operating Activities	\$64,338	\$52,048
Investing Activities:		
Capital Expenditures	\$(45,161)	\$(79,373)
Sale of Capital Assets	623	--
Notes Receivable	4,702	(42)
Sale of Subsidiary	13,798	--
Sale of Investments	49,661	34,168
Purchase of Investments	(40,455)	(4)
Net Investing Activities	\$(16,832)	\$(45,251)
Financing Activities:		
Issuance of Common Stock	\$410	\$419
Borrowing of Debt	--	7,453
Repayment of Debt	(25)	(27,194)
Cash Dividend	(14,056)	(19,331)
Purchase and Retirement of Common Stock	(56,219)	--
Net Financing Activities	\$(69,890)	\$(38,653)
Currency Translation Adjustment	\$(36)	\$(16)
Increase (Decrease) in Cash	\$(22,420)	\$(31,872)
Cash and Cash Equivalents - Beginning	80,653	76,093
Cash and Cash Equivalents - Ending	\$58,233	\$44,221

See Accompanying Notes to Condensed Consolidated Financial Statements.

UNIFI, INC.
Notes to Condensed Consolidated Financial Statements

(a)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 25, 1994 and the results of operations and cash flows for the periods ended December 25, 1994 and December 26, 1993. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year. It is suggested that the condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest annual report on Form 10-K.

(b)Income Taxes

Deferred income taxes arise primarily from temporary differences between financial and tax basis of assets and liabilities, principally property and equipment.

The difference between the statutory federal income tax rate and the effective tax rate is primarily due to results of foreign subsidiaries which are taxed at rates below those of U.S. operations. The current periods' operating results were more favorably impacted by foreign operations than the prior periods' which contributed to the lower effective tax rates.

(c)Per Share Information

Earnings per common share are computed on the basis of the number of shares outstanding, adjusted for the dilutive effect of stock options outstanding.

The Convertible Notes do not meet the test of a common stock equivalent, accordingly, conversion of these notes is only assumed for the calculation of fully diluted earnings per share.

Computation of average shares outstanding (in 000's):

	Quarters Ended		Six Months Ended	
	Dec. 25, 1994	Dec. 26, 1993	Dec. 25, 1994	Dec. 26, 1993
Average Shares				
Outstanding	69,706	70,434	70,077	70,387
Add: Dilutive Options	510	593	507	672
Primary Average Shares	70,216	71,027	70,584	71,059
Incremental Shares				
Arising from Full				
Dilution Assumption	7,754	7,779	7,753	7,765
Average Shares Assuming				
Full Dilution	77,970	78,806	78,337	78,824

Computation of net income for per share data (in 000's):

	Quarters Ended		Six Months Ended	
	Dec. 25, 1994	Dec. 26, 1993	Dec. 25, 1994	Dec. 26, 1993
Net Income - Primary	\$28,120	\$24,361	\$50,809	\$44,173
Add: Convertible Subordinated Interest Net of Tax	2,168	2,113	4,337	4,216
Net Income Assuming Full Dilution	\$30,288	\$26,474	\$55,146	\$48,389

(d)Common Stock

On January 19, 1995 the Company's Board of Directors declared a cash dividend of 10 cents per share payable on February 10, 1995 to shareholders of record on February 3, 1995.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Results of Operations

Net sales increased from \$351.5 million to \$387.3 million in the quarter or 10.2% and for the six month period, sales increased 10.3% from \$676.9 million in 1993 to \$746.5 million in 1994. We experienced volume increases of 13.3% for the quarter and 15.3% for the year-to-date over the corresponding prior year periods. Average unit price, based on overall product mix, decreased 2.8% for the quarter and 4.4% for the year-to-date compared to the corresponding periods of the prior fiscal year.

Our domestic yarn products experienced both gains in sales dollars and units for both the quarter and year-to-date. Continued excellent demand and price increases in both our dyed and natural polyester yarns have been a key factor in these increases for both the current quarter and the year-to-date. All previously announced polyester price increases are now fully in place as we enter our third fiscal quarter. Sales of our nylon and covered yarns have remained solid with the exception of the ladies' hosiery market where we continue to experience erratic demand, but going forward we feel that demand for our other products will enable us to better utilize our full capacity potential. Our spun yarn products have also benefited from strong demand for both the quarter and the year-to-date. Volume has increased as a result of production from the newest plant in Sanford, NC and subsequent capacity increases to that facility. Our average unit sales price for our spun operations has declined for the year-to-date period. However, slight improvement was noted in the current quarter as our older sales contracts began to expire late in the quarter. We anticipate increased volume in our spun operations as a result of the continuing expansion in our Sanford, NC facility and the recent acquisition of a spinning mill.

Our Irish operations have experienced increased volume for the quarter and a slight decline for the year-to-date. Average selling prices, based on product mix, are up for both periods in the current year. We are striving to increase our selling prices commensurate with raw material increases and continue to reposition our product mix to improve our margins. We anticipate increased capacity in the third quarter with the addition of more texturizing equipment.

Cost of goods sold as a percentage of net sales for the quarter increased from 85.1% last year to 85.8% this year. For the respective year-to-date periods, cost of goods sold as a percentage of net sales has increased from 85.5% to 86.1%. The increase in cost of sales as a percentage of net sales is attributable to lower average sales prices, based on product mix and, for the current quarter, was also adversely impacted by higher per unit raw material costs. Fixed manufacturing costs improved on a per unit basis for both the current quarter and the year-to-date due to the volume increases noted above.

Selling, general and administrative expenses as a percentage of net sales declined from 2.9% in the prior year quarter to 2.7% in the current quarter. Our year-to-date results are consistent reflecting a decline from 2.9% in 1993 to 2.7% in 1994. In dollar terms selling, general and administrative expenses were stable for the quarters increasing from \$10.2 million in the prior year quarter to \$10.3 million in the current quarter. For the six month period selling, general and administrative expenses increased slightly from \$19.8 million in 1993 to \$20.0 million in 1994.

Interest expense decreased from \$4.2 million in the 1993 quarter to \$3.9 million in the current quarter. For the year-to-date we have experienced a decline of \$1.4 million from \$9.3 million to \$7.9 million. This reduction of interest expense is attributed to the retirement of debt assumed in mergers consummated in prior periods. Interest income has increased from \$2.0 million in last year's second quarter to \$2.4 million in the current quarter. For the six month period, interest income has increased from \$4.7 million to \$5.1 million in the current period. The increase in interest income is attributed to higher returns on invested funds.

Other income, net increased from \$268 thousand in the prior year quarter to \$2.3 million in the current year quarter and from \$64 thousand to \$2.8 million for the year-to-date. The majority of the increase in both the current quarter and the year-to-date period resulted from the recognition of a gain on the sale of an investment that had previously been deferred pending

collection of a note receivable balance.

The effective tax rate has decreased from 39.8% to 38.3% in the current quarter and has decreased from 40.3% to 39.2% for the year-to-date. The decrease in effective tax rates is attributed to the current period increase in foreign subsidiaries earnings that are taxed at rates lower than U.S. rates.

Earnings per share increased from \$.34 per share to \$.40 per share in the current quarter and from \$.62 per share to \$.72 for the year-to-date.

Liquidity and Capital Resources

We ended the current quarter with working capital of \$289.0 million of which \$118.0 million represents cash and cash equivalents and short-term investments. This compares with working capital of \$304.3 million and cash reserves of \$152.1 million at year end. Cash and cash equivalents generated from operations amounted to \$64.3 million for the six month period ended December 25, 1994. Inventories increased \$23.1 million from \$100.3 million at June 26, 1994 to \$123.4 million at December 25, 1994. This is attributed to several factors including overall per unit raw material price increases, maintaining higher levels of raw yarn inventories in anticipation of continued strong demand and capacity increases currently in progress. Our net accounts receivable balance has declined from \$200.5 million at June 26, 1994 to \$188.8 million at December 25, 1994. This decline is due, in part, to decreased days outstanding as enhanced collection efforts and portfolio management have yielded improved results.

As noted above, our primary source of cash funds is from operating activities which generated \$64.3 million in cash and cash equivalents for the year-to-date period ended December 25, 1994. In addition to operating activities, the Company generated \$27.7 million from net investment activity during this six month period, including \$13.8 million from the sale of its French subsidiary. The primary uses of funds during the current six months were capital expenditures for capacity expansions and upgrades totaling \$45.2 million, the payment of the Company's cash dividends of \$14.1 million and the purchase and retirement of Company common stock of \$56.2 million.

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 its anticipated capital expenditure, strategic acquisition, working capital and other financial needs.

Part II. Other Information

UNIFI, INC.

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

The Shareholders of the Company at their Annual Meeting held on the 20th day of October, 1994, considered and voted upon the elections of four (4) Class 3 Directors of the Company.

The Shareholders elected management's nominees for the four (4) Class 3 Directors to serve until the Annual Meeting of the Shareholders in 1997, or until their successors are elected and qualified, as follows:

Names of Directors	Votes in Favor	Votes Against	Abstaining
William J. Armfield, IV	57,966,448	476,240	3,883,991
William T. Kretzer	57,925,298	517,390	3,883,991
G. Allen Mebane, IV	57,713,793	543,640	4,069,246
George R. Perkins, Jr.	57,966,448	472,240	3,887,991

The information set forth under the heading Election of Directors on pages 2-5 of the Definitive Proxy Statement filed with the Commission since the close of the registrant's fiscal year ending June 26, 1994, and is incorporated herein by reference.

The Shareholders at their Annual Meetings in 1992 elected Class 1 Directors and in 1993 elected Class 2 Directors to serve until the Annual Meeting of the Shareholders in 1995 and 1996 respectively, or until their successors are elected and qualified, the following persons were elected and are still serving as Class 1 and Class 2 Directors of the Company:

Class 1	Class 2
Donald F. Orr	Charles R. Carter
Timotheus R. Pohl	Jerry W. Eller
Robert A. Ward	Kenneth G. Langone
G. Alfred Webster	

Lord Eric Sharp who was elected as a Class 2 Director in 1993 died in May 1994. No one was elected to replace Lord Sharp and the number of directors of the Corporation was reduced by one after his death.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(10.1) Lease Agreement, dated March 2, 1987, between NationsBank, Trustee under Unifi, Inc. Profit Sharing Plan and Trust, Wachovia Bank and Trust Co., N.A., Independent Fiduciary, and Unifi, Inc., filed herewith.

(10.2) Severance Compensation Agreement between Unifi, Inc. and William T. Kretzer dated July 20, 1993, expiring on July 19, 1996 (similar agreements were signed with G. Allen Mebane, William J. Armfield, IV, Robert A. Ward, Jerry W. Eller and G. Alfred Webster), filed herewith.

(27) Financial Data Schedule

(b) No reports on Form 8-K have been filed during the quarter ended December 25, 1994.

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:

WILLIS C. MOORE III
Willis C. Moore III
Vice President and Chief
Financial Officer (Mr. Moore is
the Principal Financial and
Accounting Officer and has been
duly authorized to sign on behalf
of the Registrant.)

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S QUARTERLY REPORT FOR THE SIX MONTH PERIOD ENDED DECEMBER 25, 1994, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

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6-MOS		
	JUN-25-1995	
	DEC-25-1994	
		58,233
		59,770
		188,802
		0
		123,371
	431,764	
		879,043
	366,448	
	980,726	
142,801		
		230,000
		6,821
0		
		0
		566,405
980,726		
		746,491
	746,491	
		643,042
		643,042
		0
		0
	7,873	
	83,506	
	32,697	
50,809		
		0
		0
		0
		50,809
		.72
		.70

OTHER STOCKHOLDERS EQUITY OF \$566,405 IS COMPRISED OF CAPITAL IN EXCESS OF PAR OF \$144,372, RETAINED EARNINGS OF \$422,225, CUMULATIVE TRANSLATION ADJUSTMENT OF (\$365) AND RESERVE FOR INVESTMENTS OF \$173.

THIS LEASE AGREEMENT made and entered into this 2nd day of March, 1987, by and between NCNB NATIONAL BANK OF NORTH CAROLINA, Trustee under the Unifi, Inc. Profit Sharing Plan and Trust, hereinafter called "Lessor"; WACHOVIA BANK & TRUST COMPANY, N.A., hereinafter called "Independent Fiduciary"; and UNIFI, INC., a New York corporation, hereinafter called "Lessee";

WITNESSETH:

THAT FOR and in consideration of the covenants and agreements hereinafter set out, to be kept and performed by Lessee, Lessor has demised and leased, and does hereby demise and lease, to Lessee for the term and upon the conditions hereinafter set out, the following described real property situated in Guilford County, North Carolina, to wit:

BEGINNING at a tack located in the center line of Friendly Road, said tack being situate North 79 degrees 00 minutes 50 seconds East 278.75 feet along said centerline from a tack marking the northwest corner of Lot No. 2 as shown on the survey and recorded plat to which reference is hereinafter made; runs thence from said beginning point along the center line of Friendly Road North 79 degrees 00 minutes 50 seconds East 658.72 feet to a tack located in the center line of Friendly Road, said tack being situate North 79 degrees 00 minutes 50 seconds West 62.48 feet from the northwest corner of property now or formerly belonging to W. A. Stern; runs thence South 05 degrees 13 minutes 30 seconds West 775.88 feet to an iron pipe, said iron pipe marking a control corner with Lot No. 3; runs thence South 79 degrees 00 minutes 50 seconds West 445.22 feet to an iron pipe, said iron pipe marking a control corner with Lot No. 3; runs thence North 10 degrees 44 minutes 50 seconds West 745.00 feet to the point and place of BEGINNING. The same being all of Lot No. 1 according to that survey entitled "Survey for Hiltin Company", dated August 4, 1972 and prepared by Marvin L. Borum and Associates, Registered Engineers, of Greensboro, North Carolina. For reference see plat of property of Tri-City Terminals Inc. recorded in the Office of the Register of Deeds of Guilford County, North Carolina in Plat Book 43 at Page 53.

The above-described property is hereinafter referred to as "premises."

TO HAVE AND TO HOLD said described property and the privileges and appurtenances thereto belonging to Lessee, its successors and assigns, upon the following terms and conditions:

1. TERM. The original term of this Lease shall be for a period of five (5) years, beginning on the 13th day of March, 1987 and, unless sooner terminated as herein provided, shall continue until midnight on the expiration of five (5) full years.

2. RENTAL: The rental consideration to be paid by the Lessee to Independent Fiduciary in monthly installments in advance without notice or demand, for the original term of this Lease shall be paid as follows:

(a) The sum of \$18,171.00 shall be due and payable on the 13th day of March, 1987, and a like amount of \$18,171.00 shall be due and payable on the 13th day of each calendar month thereafter, to and including the 13th day

of February, 1990; and

(b) The sum of \$21,131.58 shall be due and payable on the 13th day of March, 1990, and a like amount of \$21,131.58 shall be due and payable on the 13th day of each calendar month thereafter, to and including the 13th day of February, 1992.

3. OPTIONS FOR TWO EXTENSIONS WITH RENT ADJUSTMENTS:

(a) Initial Extension Option. Provided this Lease is in full force and effect, Lessee shall have the right to extend the term of this Lease for the demised premises at the end of the original five (5) year term, for a first renewal term of five (5) years, provided Lessee shall notify Lessor in writing no later than 180 days prior to the expiration of the original term of this Lease (to wit: the 13th day of September, 1991) that Lessee is exercising its right to extend the Lease. Notwithstanding the foregoing, any such extension shall be subject to the approval of the Independent Fiduciary.

(b) Second Extension Option. If (i) Lessee shall have exercised its option for the initial renewal term pursuant to the provisions of Section (a), and (ii) if this Lease shall be in full force and effect, Lessee shall have the right to extend the term of this Lease for a second renewal term of five (5) years, commencing on the day following the expiration of the initial renewal term, provided Lessee shall notify Lessor in writing no later than 180 days prior to the expiration of the initial renewal term (to wit: the 13th day of September, 1996) that Lessee is exercising its right to extend the Lease. Notwithstanding the foregoing, any such extension shall be subject to the approval of the Independent Fiduciary.

(c) Renewal Rent Determination. If the Lessee exercises the initial extension option, the rental consideration for each month of the first three (3) years of such extension will be the Fair Market Rental Value (which for the purposes of this Lease Agreement is the net operating income increased by the deduction, if any, taken for vacancy, hereinafter referred to as "FMRV") as determined by an MAI appraisal for the first year of such extension divided by twelve (12), and the rental consideration for each month of the remaining two (2) years of such extension shall be the FMRV as determined by an MAI appraisal for the fourth year of said extended term divided by twelve (12).

If the Lessee exercises the second extension option, the rental consideration for each month of the first three (3) years of such extension will be the FMRV as determined by an MAI appraisal for the first year of such extension divided by twelve (12), and the rental consideration for each month of the remaining two (2) years of such extension shall be the FMRV as determined by an MAI appraisal for the fourth year of said extended term

divided by twelve (12).

The Lessee shall, at its cost, deliver to the Lessor no later than August 13, 1991, or prior to August 2, 1991, an MAI appraisal made within twenty (20) days prior to the date of delivery determining the FMRV for the first three (3) years of the first renewal term and for the last two years of the first renewal term. The Lessee shall, at its cost, deliver to the Lessor no later than August 13, 1996, or prior to August 2, 1996, an MAI appraisal made within twenty (20) days prior to the date of delivery determining the FMRV for the first three (3) years of the second renewal term and for the last two (2) years of the second renewal term. The FMRV shall be computed under the same formula used in arriving at the net operating income, increased by the amount of deduction taken for vacancy, set forth in the appraisal report (date of value estimate, May 28, 1995, and updated on June 24, 1986) prepared by John McCracken and Associates, Inc. In the event the Lessee does not agree with the FMRV for the initial or second extension options as determined by the MAI appraisal, the parties agree that the actual FMRV for such extensions shall be determined by arbitration under the provisions of Paragraph 21 of this Lease.

The rental consideration to be paid for both the initial extended term and the second extended term shall be paid in monthly installments (rounded off to the nearest dollar) in advance in the same manner as provided in Paragraph 2 with reference to the payment of the rental consideration for the original term of this Lease.

4. Use. Lessee shall use the said property in a careful manner in connection with the normal operation of its business. No unlawful or offensive use shall be made of the property. Lessee agrees to comply with all laws, ordinances and governmental regulations relating to the use of said property.

5. Maintenance and Repairs. Lessee shall, at its own expense, maintain the building and demised premises in good condition and repair, including, but not limited to, the foundation, exterior walls, plate glass, roof, heating equipment, air conditioning equipment, plumbing, interior of building, electrical system, and pavement and landscaping around said building, subject to ordinary wear and tear. Repairs, as used in this paragraph, do not mean replacement of such capital improvements as the roof, heating and air conditioning equipment or other major items which might wear out in their ordinary use during the term of this Lease. The Lessee shall indemnify the Lessor against any mechanic lien or other liens arising out of the making of any alterations, repairs, additions or improvements to the premises by the Lessee.

The Lessor shall, at its expense, make all capital improvements, as

opposed to repairs, to the roof, heating and air-conditioning system, and other major items in order to keep the same in good repair and operating condition during the original term and any extended term of this Lease. The parties agree that the cost of each capital improvement will be amortized over the life of said improvement, hereinafter sometimes referred to as "annual amortized cost", and the Lessee shall, while it is in possession of the premises, during the life of such improvement pay to the Lessor annually on the anniversary date of the completion of such capital improvement an amount equal to the annual amortized cost. By way of illustration: If a capital improvement which has a life expectancy of twenty (20) years and costs \$20,000.00, the annual amortized cost would be \$1,000.00, and if the improvement was completed on March 1, 1989, the Lessee would pay to the Lessor on March 1, 1990 and on the 1st day of March each calendar year thereafter while the Lessee is in possession of the premises, to and including the 1st day of March, 1990, the sum of \$1,000.00. Lessee has no obligation to reimburse Lessor for any sums expended in making said capital improvements that have not been paid prior to the termination of this Lease.

6. Insurance. Fire insurance and extended coverage on the leased premises shall be the responsibility of the Lessee and the amount of coverage shall be the full insurable value of the leased premises. The policy proceeds shall be payable to the Lessor to the extent of the full insurable value of the leased premises. Lessee will at all times during the term of this Lease, at its own expense, maintain and keep in force a policy of general public liability insurance against claims for personal injury, death or property damage occurring in, on, or about the lease premises, or on or about the streets, sidewalks or premises adjacent to the leased premises, with the Lessor as named insured as its interests may appear. The minimum limits of such general public liability insurance shall be Five Hundred Thousand and No/100 (\$500,000.00) Dollars for injury (or death) to any one person, and One Million and No/100 (\$1,000,000.00) for injury (or death) to more than one person in any one accident or occurrence, and One Hundred Thousand and No/100 (\$100,000.00) Dollars in respect to property damage.

7. Damage by Casualty. If the building located on the demised premises shall be damaged by fire or other casualty covered by the extended coverage provision of a standard fire insurance policy,

- (a) Lessor shall repair such damage as soon as it is reasonably possible to do so unless either Lessor or Lessee shall elect to terminate this Lease under the provisions of subparagraph (b) or (c) of this Paragraph 7 in the event the provisions thereof are applicable to such damage;
- (b) If the cost of such repairs shall exceed fifty percent (50%) of the reasonable replacement cost of said

building immediately prior to the occurrence of such damage, Lessor and Lessee shall each have an option to terminate this Lease by giving to the other written notice of its election to do so within thirty (30) days after the date such damage occurs, such termination to be effective as of the date such damage occurred;

- (c) If the extent of the damage is such that the same cannot, with reasonable diligence, be repaired within ninety (90) days or within the number of days equal to one-fourth the unexpired portion of the term, whichever shall be less, after the date such damage occurs, Lessor and Lessee shall each have an option to terminate this Lease by giving to the other written notice of its election to do so within thirty (30) days after the date such damage occurs, such termination to be effective as of the date such damage occurred; and
- (d) If this Lease is not terminated under the provisions of subparagraph (b) or (c) of this Paragraph 7, the rent provided for in Paragraph 2 and 3 hereof shall be reduced proportionately with the diminution of the usefulness of the demised premises for the period between the date such damage occurs and the date such damage is repaired.

8. Taxes. During the term of this Lease, Lessee shall be responsible for all property taxes and similar assessments which may be assessed or levied upon or in respect of the real estate subject to this Lease. Lessee shall furnish to Lessor within thirty (30) days following the end of each calendar year a statement that such taxes have been paid. Lessee shall be responsible for all property taxes which may be assessed or levied upon in respect of all personal property located upon the leased premises, which belong to Lessee. The property taxes in respect of the real estate subject to this Lease for the last calendar year of the term of this Lease will be prorated on a per diem basis.

9. Utilities. Lessee will pay all utility bills connected with the leased premises during the term of this Lease, including, but not limited to, utility bills for heating, air conditioning and lighting of the demised premises, electricity, telephone, water, sewage, and garbage disposal.

10. Janitorial Service. Lessee shall furnish, or cause to be furnished, at Lessee's expense, janitorial services that will keep the leased premises in a reasonable state of cleanliness for the business being operated therein.

11. Default. The happening of any one or more of the following listed events (hereinafter referred to singularly as "Event of Default") shall constitute a breach of this Lease Agreement on the part of Lessee, namely:

- (a) The filing by, on behalf of, or against Lessee of any petition of pleading to declare Lessee a bankrupt, voluntary or involuntary, under any bankruptcy law or act.
- (b) The appointment by any court or under any law of a receiver, trustee, or other custodian of the property, assets, or business of Lessee.

- (c) The assignment by Lessee of all or any part of its property or assets for the benefit of creditors.
- (d) The failure of Lessee to pay any rent payable under this Lease Agreement.
- (e) The failure of Lessee to perform fully and promptly any act required of it in the performance of this Lease or otherwise to comply with any term or provision thereof.

Upon the happening of any event of default and the failure of Lessee to cure or remove the same within thirty (30) days, except in default in the payment of rent which shall be ten (10) days, after written notice from Lessor to do so, Lessor, at its election, may terminate this Lease or may terminate Lessee's right to possession or occupancy only without terminating this Lease by written notice to Lessee.

Upon termination of this Lease, whether by lapse of time or otherwise, or upon any termination of Lessee's right to possession or occupancy of the premises without terminating this Lease, Lessee shall promptly surrender possession of and vacate the premises and deliver possession thereof to Lessor, and Lessee hereby grants to Lessor full and free license to enter into and upon the premises in such event and with or without process of law to repossess the premises and to expel or remove Lessee and any others who may be occupying the premises and to remove therefrom any and all property, using for such purpose such force as may be necessary without being guilty of or liable for trespass, eviction, or forcible entry or detainer and without relinquishing Lessor's right to rent or any other right given to Lessor hereunder or by operation of law.

If Lessor shall elect to terminate Lessee's right to possession only as above provided, without terminating this Lease, Lessee shall nevertheless remain obligated to pay the rent herein reserved for the full term hereof except to the extent of any credit against said rent which Lessee is entitled by law to receive for the reasonable rental value of said premises or for any rents received by Lessor upon a re-letting of said premises as agent of Lessee, but in the name of Lessor, or for any other credit to which Lessee is entitled by law.

12. Inspection. At all reasonable times, the Independent Fiduciary and its authorized representatives may inspect the leased property.

13. Sublease. It is understood and agreed that if the Lessee sublets all or any part of the premises or assigns this Lease, it shall, in either event, remain fully liable to Lessor for full performance of this Lease Agreement.

14. Alterations. Lessee, at its own expense, may make reasonable alterations to the improvements located upon the leased premises, with the prior written consent of Lessor, which will not be unreasonably withheld.

15. Property of Lessee. All of the equipment or other property installed in or attached to the premises by Lessee shall be and remain the property of the Lessee and may be removed by the Lessee upon the expiration of the lease period.

16. Eminent Domain. In the event that any portion of the premises shall be taken by any public authority under the power of eminent domain or like power, which taking shall have significant effect on the operation of the business conducted by the Lessee, this Lease Agreement may be terminated at the option of the Lessee within sixty days of the earlier of the following:

- (a) Specific written notice from Lessor to Lessee advising of the proposed taking and giving all pertinent details with regard thereto; or
- (b) Service of process upon Lessee in a suit of condemnation.

Failure of Lessee to exercise its option of cancellation within such sixty (60) days period shall constitute a forfeiture by Lessee of its right to termination. Damages awarded by the condemning authority shall belong solely to Lessor.

In making the determination as to whether such taking shall have significant effect on the operation of the business conducted by Lessee, Lessor and Lessee shall discuss such and both will apply reasonable judgment.

If Lessor and Lessee are unable to agree, then the matter will be determined by three (3) persons who are qualified to make such determination, one of which is selected by Lessor, one of which is selected by Lessee, and the other which is selected by the first two. The determination by these three (3) people will be binding upon Lessor and Lessee.

17. Warranty of Quiet Enjoyment. Lessor covenants that its has full power and lawful authority to execute this Lease Agreement and that upon compliance by Lessee with the terms and provisions hereof, Lessee shall have enjoyment of the premises during the term hereof.

18. NOTICE: Any notice provided herein shall be deemed sufficient to have been duly served if the same shall be in writing and mailed, postage prepaid, until another address is furnished, addressed as follows:

Lessor

Lessee

Wachovia Bank & Trust
Company, N.A., Independent
Fiduciary
Trust Department
Winston-Salem, NC 27150
AND

NCNB National Bank of
North Carolina, Trustee
Trust Department
Charlotte, NC 28255

Unifi, Inc.
P. O. Box 19109
Greensboro, NC 27419-9109

19. Holding Over. In the event the Lessee remains in possession of

the premises after the expiration of the original term without exercising the rights granted in Paragraph 3, the Lessee shall not acquire any right, title or interest in or to said premises. Lessee, as a result of such holding over, shall occupy the premises as a tenant from month to month with rental consideration as provided in Paragraph 2 or 3, and subject to all conditions, privileges and obligations set forth in this Lease during such holding over period and the Lessor or Lessee shall have the right of canceling said month to month tenancy by giving the other thirty (30) days written notice to vacate.

20. Attorney Fees. Upon the occurrence of any events of default by the Lessee, the Lessor may employ an attorney to enforce its rights and remedies and the Lessee hereby agrees to pay to the Lessor the sum of 15% of the outstanding rental owing on this Lease or 15% of any recovery for said Breach, whichever amount is the larger as reasonable attorney fees plus all other reasonable expenses incurred by the Lessor in enforcing any of the Lessees' rights and remedies hereunder.

21. Arbitration. Any controversy which may arise between the Lessor and Lessee regarding the rights, duties, liabilities and FMRV for the initial and second extension options will be settled by arbitration. Such arbitration shall be before three (3) disinterested arbitrators, one named by the Lessor, one named by the Lessee, and one named by the two (2) thus chosen. The arbitrators shall determine the controversy and their determination shall be binding upon both parties. Each party shall pay one-half of the costs of such arbitration.

22. Interpretation. The provisions of this Lease Agreement shall constitute the entire agreement between the parties. All singular nouns, pronouns shall include plural and all masculine nouns and pronouns shall include the feminine and neuter. This Lease Agreement shall be construed in accordance with the laws of the State of North Carolina. If any provision of this Lease Agreement shall be determined to be void, such determination shall not affect any other provision hereof, and all other provisions shall remain in full force and effect. This Lease Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors, heirs, executors, administrators and assigns.

23. Memorandum of Lease. A Memorandum of Lease will be executed by the parties hereto in a form appropriate for recordation upon the public records. The Memorandum of Lease shall include such provisions of this Lease Agreement as may reasonably be requested by either party hereto, but shall not include the amount of rental payments hereunder.

The NNCB National Bank of North Carolina, as Trustee, the Wachovia Bank & Trust Company, N.A., as Independent Fiduciary, and Unifi, Inc. entered into

an Independent Fiduciary Agreement on the 3rd day of September, 1986, as amended, under which the legal title to the premises would be in the Trustee, with the Independent Fiduciary having the exclusive authority and responsibility for the disposition, management and control of said premises; that the Independent Fiduciary negotiated this lease Agreement and has directed the Trustee to enter into this Lease Agreement all in accordance with the aforesaid Independent Fiduciary Agreement.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be signed and attested and the corporate seals attached by the proper officials of the respective parties hereto, the day and year first above written.

TRUSTEE OF THE UNIFI, INC.
PROFIT SHARING PLAN AND TRUST

NCNB NATIONAL BANK OF NORTH CAROLINA

BY: GLENDA G. STEEL
Vice President

ATTEST:

ADA M. GASTON
Assistant Secretary

INDEPENDENT FIDUCIARY UNDER THE
UNIFI, INC. PROFIT SHARING PLAN
AND TRUST

WACHOVIA BANK & TRUST COMPANY, N.A.

BY: JOE O. LONG
Vice President

ATTEST:

NANCY P. BLEDSOE
Assistant Secretary

UNIFI, INC.

BY: ROBERT A. WARD
Executive Vice-President

ATTEST:

C. CLIFFORD FRAZIER, JR.
Secretary

STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

I, MARTHA N. LEE, a Notary Public of said County and State, do hereby certify that ADA M. GASTON, personally came before me this day and acknowledged that she is the Assistant Secretary of the NCNB NATIONAL BANK OF NORTH CAROLINA, and that by authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by its Vice President, sealed with its corporate seal, and attested by her as its

Assistant Secretary.

Witness my hand and notarial seal this the 4th day of March, 1987.

MARTHA N. LEE
Notary Public

My Commission Expires:

2-27-91

STATE OF NORTH CAROLINA

COUNTY OF FORSYTH

I, BONNIE D. BINDER, a Notary Public of said County and State, do hereby certify that NANCY P. BLEDSOE, personally came before me this day and acknowledged that she is the Assistant Secretary of the WACHOVIA BANK & TRUST COMPANY, N.A., and that by authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by its Vice President, sealed with its corporate seal, and attested by her as its Assistant Secretary.

Witness my hand and notarial seal this the 2nd day of March, 1987.

BONNIE D. BINDER
Notary Public

My Commission Expires:

12-10-90

STATE OF NORTH CAROLINA

COUNTY OF GUILFORD

I, GRETCHEN WEST (THOMPSON), a Notary Public of said County and State, do hereby certify that C. CLIFFORD FRAZIER, JR., personally came before me this day and acknowledged that he is the Secretary of UNIFI, INC., and that by authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by its Executive Vice President, sealed with its corporate seal, and attested by him as its Secretary.

Witness my hand and notarial seal this the 6th day of March, 1987.

GRETCHEN WEST (THOMPSON)
Notary Public

My Commission Expires:

10-12-87

SEVERANCE COMPENSATION AGREEMENT

THIS AGREEMENT ("Agreement") between UNIFI, INC., a New York corporation (the "Company"), and WILLIAM T. KRETZER ("Executive") dated the 20th day of July, 1993.

WITNESSETH THAT:

WHEREAS, William T. Kretzer is presently the President and Chief Executive Officer of the Company, to which he was elected in 1985, and has been an Officer or Executive Officer since 1975; and

WHEREAS, the Company's Board of Directors considers the establishment and maintenance of a sound and vital Management to be essential in protecting and enhancing the best interests of the Company and its Shareholders and recognizes that the possibility of a change in control exists and that such possibility, and the uncertainty and questions which it may raise among Management, may result in the departure or distraction of Management personnel to the detriment of the Company and its Shareholders; and

WHEREAS, the Executive desires that in the event of any change in control he will continue to have the responsibility and status he has earned; and

WHEREAS, the Company's Board of Directors has determined that it is appropriate to reinforce and encourage the continued attention and dedication of members of the Company's Management, including the Executive, to their assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a change in control of the Company.

NOW, THEREFORE, in order to induce the Executive to remain in the employment of the Company and in consideration of the Executive agreeing to remain in the employment of the Company, subject to the terms and conditions set out below, the Company agrees it will pay such amount, as provided in Section 4 of this Agreement, to the Executive, if the Executive's employment with the Company terminates under one of the circumstances described herein following a change in control of the Company, as herein defined.

SECTION 1. TERM: This Agreement shall terminate, except to the extent that any obligation of the Company hereunder remains unpaid as of such time, upon the earliest of (i) three years from the date hereof if a Change in Control of the Company has not occurred within such three year period; (ii) the termination of the Executive's employment with the Company based on death, Disability (as defined in Section 3(b), Retirement (as defined in Section 3(c)), Cause (as defined in Section 3(d)) or by the Executive other than for Good Reason (as defined in Section 3(e)); and (iii) two years from the date of a Change in Control of the Company if the Executive has not

voluntarily terminated his employment for Good Reason as of such time.

SECTION 2. CHANGE IN CONTROL: No compensation shall be payable under this Agreement unless and until (a) there shall have been a Change in Control of the Company, while the Executive is still an employee of the Company and (b) the Executive's employment by the Company thereafter shall have been terminated in accordance with Section 3. For purposes of this Agreement, a Change in Control of the Company shall be deemed to have occurred if (i) there shall be consummated (x) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (ii) the Shareholders of the Company approved any plan or proposal for the liquidation or dissolution of the Company, or (iii) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of twenty percent (20%) or more of the Company's outstanding Common Stock, or (iv) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's Shareholders, of each new Director was approved by a vote of at least two-thirds of the Directors then still in office who were Directors at the beginning of the period.

SECTION 3. TERMINATION FOLLOWING CHANGE IN CONTROL: (a) If a Change in Control of the Company shall have occurred while the Executive is still an employee of the Company, the Executive shall be entitled to the compensation provided in Section 4 upon the subsequent termination of the Executive's employment with the Company by the Executive voluntarily for Good Reason or by the Company unless such termination by the Company is as a result of (i) the Executive's death, (ii) the Executive's Disability (as defined in Section (3)(b) below); (iii) the Executive's Retirement (as defined in Section 3(c) below); (iv) the Executive's termination by the Company for Cause (as defined in Section 3(d) below); or (v) the Executive's decision to terminate employment other than for Good Reason (as defined in Section 3(e) below).

(b) DISABILITY: If, as a result of the Executive's incapacity due to

physical or mental illness, the Executive shall have been absent from his duties with the Company on a full-time basis for six months (including months before and after the change of control) and within 30 days after written notice of termination is thereafter given by the Company the Executive shall not have returned to the full - time performance of the Executive's duties, the Company may terminate this Agreement for "Disability."

(c) RETIREMENT: The term "Retirement" as used in this Agreement shall mean termination in accordance with the Company's retirement policy or any arrangement established with the consent of the Executive.

(d) CAUSE: The Company may terminate the Executive's employment for Cause. For purposes of this Agreement only, the Company shall have "Cause" to terminate the Executive's employment hereunder only on the basis of fraud, misappropriation or embezzlement on the part of the Executive or malfeasance or misfeasance by said Executive in performing the duties of his office. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Company's Board of Directors at a meeting of the Board called and held for the purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Executive was guilty of conduct set forth in the second sentence of this Section 3(d) and specifying the particulars thereof in detail.

(e) GOOD REASON: The Executive may terminate the Executive's employment for Good Reason at any time during the term of this Agreement. For purposes of this Agreement "Good Reason" shall mean any of the following (without the Executive's express written consent):

(i) the assignment to the Executive by the Company of duties inconsistent with the Executive's position, duties, responsibilities and status with the Company immediately prior to a Change in Control of the Company; or a change in the Executive's titles or offices as in effect immediately prior to a Change in Control of the Company; or any removal of the Executive from or any failure to reelect the Executive to any of the positions held prior to the change of control, except in connection with the termination of his employment for Disability, Retirement, or Cause, or as a result of the Executive's death; or by the Executive other than for Good Reason;

(ii) a reduction by the Company in the Executive's base salary as in effect on the date hereof or as the same may be increased from time to time during the term of this Agreement or the Company's failure to increase (within 12 months of the Executive's last increase in base salary) the Executive's base salary after a Change in Control of the Company in an amount which at least equals, on a percentage basis, the average percentage increase in base salary for all executive officers of the Company effected in the preceding 12 months;

(iii) any failure by the Company to continue in effect

any benefit plan or arrangement (including, without limitation, the Company's Profit Sharing Plan, group life insurance plan and medical, dental, accident and disability plans) in which the Executive is participating at the time of a Change in Control of the Company (or any other plans providing the Executive with substantially similar benefits) (hereinafter referred to as "Benefit Plans"), or the taking of any action by the Company which would adversely affect the Executive's participation in or materially reduce the Executive's benefits under any such Benefit Plan or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of a Change in Control of the Company;

(iv) any failure by the Company to continue in effect any plan or arrangement to receive securities of the Company (including, without limitation, Stock Option Plans or any other plan or arrangement to receive and exercise stock options, restricted stock or grants thereof) in which the Executive is participating at the time of a Change in Control of the Company (or plans or arrangements providing him with substantially similar benefits) (hereinafter referred to as "Securities Plans") and the taking of any action by the Company which would adversely affect the Executive's participation in or materially reduce the Executive's benefits under any such Securities Plan;

(v) any failure by the Company to continue in effect any bonus plan, automobile allowance plan, or other incentive payment plan in which the Executive is participating at the time of a Change in Control of the Company, or said Executive had participated in during the previous calendar year;

(vi) a relocation of the Company's principal executive offices to a location outside of North Carolina, or the Executive's relocation to any place other than the location at which the Executive performed the Executive's duties prior to a Change in Control of the Company, except for required travel by the Executive on the Company's business to an extent substantially consistent with the Executive's business travel obligations at the time of a Change in Control of the Company;

(vii) any failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled at the time of a Change in Control of the Company;

(viii) any breach by the Company of any provision of this Agreement;

(ix) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company; or

(x) any purported termination of the Executive's employment which is not made pursuant to a Notice of Termination satisfying the requirements of Section 3(f).

(f) NOTICE OF TERMINATION: Any termination by the Company pursuant to Section 3(b), 3(c) or 3(d) shall be communicated by a Notice of Termination.

For purposes of this Agreement, a "Notice of Termination" shall mean a written notice which shall indicate those specific termination provisions in this Agreement relied upon and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. For purposes of this Agreement, no such purported termination by the Company shall be effective without such Notice of Termination.

(g) DATE OF TERMINATION: "Date of Termination" shall mean (a) if

Executive's employment is terminated by the Company for Disability, 30 days after Notice of Termination is given to the Executive (provided that the Executive shall not have returned to the performance of the Executive's duties on a full-time basis during such 30 day period) or (b) if the Executive's employment is terminated by the Company for any other reason, the date on which a Notice of Termination is given; provided that if within 30 days after any Notice of Termination is given to the Executive by the Company the Executive notifies the Company that a dispute exists concerning the termination, the Date of Termination shall be the date the dispute is finally determined, whether by mutual agreement by the parties or upon final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected) or (c) the date the Executive notifies the Company in writing that he is terminating his employment and setting forth the Good Reason (as defined in Section 3(e)).

SECTION 4. SEVERANCE COMPENSATION UPON TERMINATION OF EMPLOYMENT. If the Company shall terminate the Executive's employment other than pursuant to Section 3(b), 3(c) or 3(d) or if the Executive shall voluntarily terminate his employment for Good Reason, then the Company shall pay to the Executive as severance pay in a lump sum, in cash, on the fifth day following the Date of Termination, an amount equal to 2.99 times the average of the aggregate annual compensation paid to the Executive during the five calendar years preceding the Change in Control of the Company by the Company and any of its subsidiaries; provided, however, that if the lump sum severance payment under this Section 4, either alone or together with other payments which the Executive has the right to receive from the Company, would constitute a "parachute payment" (as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")), such lump sum severance payment shall be reduced to the largest amount as will result in no portion of the lump sum severance payment under this Section 4 being subject to the excise tax imposed by Section 4999 of the Code. The determination of any reduction in the lump sum severance payment under this Section 4 pursuant to the foregoing proviso shall be made by the Company's Independent Certified Public Accountants, and their decision shall be conclusive and binding on the Company and the Executive.

SECTION 5. NO OBLIGATION TO MITIGATE DAMAGES; NO EFFECT ON OTHER CONTRACTUAL RIGHTS: (a) The Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by

the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

(b) The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish the Executive's existing rights, or rights which would accrue solely as a result of the passage of time, under any Benefit Plan, Incentive Plan or Securities Plan, employment agreement or other contract, plan or arrangement.

(c) The Company shall, upon the termination of the Executive's employment other than by death, Disability (as defined in Section 3(b)), Retirement (as defined in Section 3(c)) or Cause (as defined in Section 3(d)), or the termination of the Executive's employment by the Executive without Good Reason, maintain in full force and effect, for the Executive's continued benefit until the earlier of (a) two years after the Date of Termination or (b) your commencement of full time employment with a new employer, all life insurance, medical, health and accident, and disability plans, programs or arrangements in which you were entitled to participate immediately prior to the Date of Termination, provided that your continued participation is possible under the general terms and provisions of such plans and programs. In the event the Executive is ineligible under the terms of such plans or programs to continue to be so covered, the Company shall provide substantially equivalent coverage through other sources.

SECTION 6. SUCCESSOR TO THE COMPANY: (a) The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Any failure of the Company to obtain such agreement prior to the effectiveness of any such succession or assignment shall be a material breach of this Agreement and shall entitle the Executive to terminate the Executive's employment for Good Reason. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 6 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law. If at any time during the term of this Agreement the Executive is employed by any corporation a majority of the voting securities of which is then owned by the Company, "Company" as used in Sections 3, 4 and 11 hereof shall in addition include such employer. In such event, the Company agrees that it shall pay or shall cause such employer to pay any amounts owed to the Executive pursuant to

Section 4 hereof.

(b) If the Executive should die while any amounts are still payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's legatee, or other designee or, if there be no such designee, to the Executive's estate. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives or attorney -in-fact, executors or administrators, heirs, distributees and legatees.

SECTION 7. NOTICE: For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

If to the Company:

Unifi, Inc.
P. O. Box 19109
Greensboro, NC 27419-9109

ATTENTION: Mr. William T. Kretzer
President and Chief Executive Officer

If to the Executive:

Mr. William T. Kretzer
3039 Lake Forest Drive
Greensboro, NC 27408

or such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

SECTION 8. MISCELLANEOUS: (a) The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

(b) Any payment or delivery required under this Agreement shall be subject to all requirements of the law with regard to withholding (including FICA tax), filing, making of reports and the like, and Company shall use its best efforts to satisfy promptly all such requirements.

(c) Prior to the Change in Control of the Company, as herein defined, this Agreement shall terminate if Executive shall resign voluntarily, retire, become permanently and totally disabled, or die. This Agreement shall also terminate if Executive's employment as an officer of the Company shall have been terminated for any reason by the Board of Directors of the Company as constituted prior to any Change in Control of the Company, as herein defined.

SECTION 9. COUNTERPARTS: This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of

which together will constitute one and the same instrument.

SECTION 10. LEGAL FEES AND EXPENSES: The Company shall pay all legal fees and expenses which the Executive may incur as a result of the Company's contesting the validity, enforceability or the executive's interpretation of, or determinations under, this Agreement.

SECTION 11. CONFIDENTIALITY: The Executive shall retain in confidence any and all confidential information known to the Executive concerning the Company and its business so long as such information is not otherwise publicly disclosed.

IN WITNESS WHEREOF, Unifi, Inc. has caused this Agreement to be signed by the Chairman of the Company's Compensation Committee pursuant to resolutions duly adopted by the Board of Directors and its seal affixed hereto and the Executive has hereunto affixed his hand and seal effective as of the date first above written.

UNIFI, INC.

BY: KENNETH G. LANGONE
Chairman of the Compensation
Committee

WILLIAM T. KRETZER
William T. Kretzer
President and
Chief Executive Officer