UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended June 27, 2004

OR

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

For the transition period from to

Commission file number 1-10542

Unifi, Inc.

(Exact name of registrant as specified in its charter)

New York *(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)*	**27419-9109** *(Zip Code)*

Registrant's telephone number, including area code:

(336) 294-4410

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

(Title of Each Class)	(Name of Each Exchange on Which Registered)
Common Stock	New York Stock Exchange

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

None

Indicate by 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 ☑ No o

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

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

As of December 28, 2003, the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant was $306,670,013. The Registrant has no non-voting stock.

As of September 10, 2004, the number of shares of the Registrant's common stock outstanding was 52,114,204.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Annual Meeting of Shareholders of Unifi, Inc., to be held on October 21, 2004, are incorporated by reference into Part III. (With the exception of those portions which are specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed or incorporated by reference as part of this report.)

PART I

Item 1. *Business*

General Development of Business

Unifi, Inc., a New York corporation formed in 1969, together with its subsidiaries, hereinafter set forth, (the “Company” or “Unifi”), is a diversified producer and processor of textile yarns with manufacturing operations in the U.S., Ireland and South America. Unifi closed its operations in the U.K. during the fiscal 2004 fourth quarter, and the Ireland operations are expected to be closed by October 2004. The Company is primarily engaged in the processing of synthetic yarns in two business segments, polyester and nylon. The polyester segment is comprised of textured, dyed, twisted and beamed yarns with sales to knitters and weavers that produce fabrics for the apparel, automotive and furniture upholstery, home furnishings, industrial and other end use markets. The nylon segment is comprised of textured nylon and covered spandex products with sales to knitters and weavers that produce fabrics for the apparel, hosiery, sock and other end use markets.

During the third quarter of fiscal 2004, the Company formalized its initiative to develop a sourcing business. This new business is a full service, full package sourcing company that is designed to eliminate inherent development and speed-to-market limitations found within the current linear supply-chain model by utilizing its grid of members to produce complex orders that align with consumer demand. The primary business focus is on performance-based apparel with consumer functionality, such as stretch, moisture management and odor control and its targeted end use applications range from basics to active wear, outdoor, travel and career apparel.

Financial Information About Segments

See Footnote 8 “Business Segments, Foreign Operations and Concentrations of Credit Risk” of this Report for further information regarding the financial information about these segments.

Description of Business

The Company processes synthetic polyester and nylon yarns. The texturing process, which is common to both polyester and nylon, involves the processing of partially oriented yarn (“POY”), which is either natural or solution dyed raw polyester or natural nylon filament fiber. POY is made from small polymer beads that are melted and extruded through microscopic holes to form a single filament. Texturing POY involves the use of high-speed machines to draw heat and twist the POY to produce yarn having various physical characteristics, depending on its ultimate end use. This process gives the yarn greater bulk, strength, stretch, consistent dye ability and a softer feel, thereby making it suitable for use in knitting and weaving of fabrics. The polyester and nylon yarns produced by the Company can be sold externally or further processed internally. Additional processing for our polyester segment includes package dyeing, twisting and beaming. Package dyeing allows the Company to match customer specific color requirements for yarns sold into the automotive, home furnishings and apparel markets. Twisting involves wrapping two filament yarns together, which can be sold for such uses as sewing thread, home furnishings and apparel. Beaming places both textured yarn and unprocessed POY on beams to be used by customers in knitting and weaving applications. Further processing for the nylon segment mostly includes covering, which involves the wrapping or air entangling of filament or spun yarn around a core yarn. This process enhances a fabric’s ability to stretch, recover its original shape, and resist wrinkles.

Sources and Availability of Raw Materials: Effective June 1, 2000, Unifi and E. I. DuPont de Nemours and Company (“DuPont”), began operating their America’s manufacturing alliance (the “Alliance”) to produce polyester filament yarn. Effective April 30, 2004, Dupont sold its textiles and interiors assets and businesses, including its participation in the Alliance to subsidiaries of Koch Industries, Inc. Accordingly, the Alliance is now between the Company and Koch’s subsidiary INVISTA S.a.r.l. (“INVISTA”). The objective of the Alliance is to reduce operating costs through collectively planning and operating both companies’ POY facilities as a single production unit, although the parties to the Alliance continue to own their respective manufacturing facilities. The resulting asset optimization, along with the sharing of manufacturing technologies, is intended to result in significant quality and yield improvements and product innovations. Unifi's manufacturing facility is located in Yadkinville, North Carolina and INVISTA's remaining facility is in Kinston, North Carolina. During July 2004, the Company announced that it had agreed to acquire INVISTA's polyester filament manufacturing assets, including inventories, located in Kinston and the parties are discussing the acquisition by Unifi of other assets. See Footnote 16 "Alliance" of this Report for further information.

The primary third party suppliers of POY to the Company's polyester segment are INVISTA (formerly DuPont Textiles and Interiors), Reliance Industries Limited and Nanya Plastics Corp. of America ("Nan Ya"). The majority of Company POY is produced by the Alliance. Raw materials purchased to manufacture POY at the Company's Yadkinville facility are supplied by Nan Ya.

The primary suppliers of POY to the Company's nylon segment are INVISTA, U.N.F. Industries Ltd ("UNF") and Universal Premier Fibers, LLC (formerly Cookson Fibers, Inc.). UNF is a 50/50 joint venture formed on September 27, 2000, between Unifi and Nilit Ltd., located in Israel. The joint venture produces approximately 16.0 million pounds of nylon 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 production is being utilized in the Company's domestic nylon texturing and covering operations.

Although the Company is heavily dependent upon a limited number of suppliers, the Company has not had and does not anticipate having any significant difficulty in obtaining its raw polyester and nylon POY or raw materials used to manufacture polyester POY.

Patents, Trademarks and Licenses: The Company currently has a limited number of patents and registered trademarks, none of which it considers material to any reporting segment or its business taken as a whole.

Working Capital Commitments, Sales Return Policies and Customer Payment Terms: The Company's polyester reporting segment provides, for one specific customer, a raw yarn consignment arrangement to warehouse inventory at the customer's manufacturing locations to ensure such customer has a readily available source of raw material. Inventory at these locations remains the property of the Company until such time that the customer consumes the goods for use in its manufacturing processes or, in certain cases, after an agreed upon period of time has elapsed at which time the goods are automatically sold and title to such goods passes to the customer. In addition, the polyester and nylon segments hold approximately $0.2 million and $2.7 million, respectively, of inventory in warehouses to meet customer delivery requirements. Both the polyester segment and the nylon segment also have supply agreements to purchase raw materials and supplies from vendors to ensure availability of materials to use in the manufacturing of Company products. The Company does not believe any of these working capital arrangements are material to these reporting segments or to the Company taken as a whole.

Sales return practices are typically developed and enforced by the Company or segment management and generally provide for the return of yarn that is off-quality or subsequently deemed not suitable for a particular end use. In addition, rebates may be offered to specific large volume customers for purchasing certain quantities of yarn over a prescribed time period. The Company provides for allowances associated with rebates in the same accounting period the sales are recognized in income. Allowances for rebates are calculated based on sales to customers with negotiated rebate agreements with the Company.

Customer payment terms are generally consistent for both the polyester and nylon reporting segments and are usually based on prevailing industry practices for the sale of yarn domestically or internationally. In certain cases, payment terms are subject to further negotiation between the Company and individual customers based on specific circumstances impacting the customer. This may entail the extension of payment terms or negotiation of situation specific payment plans. The Company does not believe that any such deviations from normal payment terms are significant to either reporting segment or to the Company taken as a whole.

Customers: The Company, in fiscal year ended June 27, 2004, sold its polyester yarns to approximately 700 customers and its nylon yarns to approximately 200 customers. Neither the polyester reporting segment nor the nylon reporting segment had sales to any one customer in fiscal year 2004 either individually or combined (for shared customers) in excess of 10% of the Company's consolidated revenues. However, there is one nylon reporting segment customer that exceeds 10% of the nylon segment's net sales to external customers.

Due to the additional raw material and manufacturing costs incurred to produce certain yarns and the stringent quality and time sensitivity of the end-use markets of these certain yarns (for example, dyed yarns used in the automotive and furniture markets), sales prices are higher, on average, for these items than for other polyester products used in different end-use applications. Gross margins generally compare favorably for these items absent any significant quality claims which are more prevalent in automotive and home furnishings end uses. Consequently, the loss of customers that purchase significant volumes of dyed yarns could have a significant effect on the operating income of the polyester segment and the consolidated Company.

Backlog and Seasonality of Business: The Company generally sells its products on an order-by-order basis for both the polyester and nylon reporting segments. Changes in economic indicators and consumer confidence levels can have a significant impact on sales at retail. Deviations between expected sales and actual consumer demand result in significant adjustments to desired inventory levels and, in turn, replenishment orders placed with suppliers. This changing demand ultimately works its way through the supply chain and impacts the Company. The end result is typically the absence of long-term sales contracts between the Company and its customers even in situations where yarn with unique characteristics is sold to one or very few customers. For substantially all customer orders including those involving more customized yarns, the Company manufactures and ships yarn in accordance with firm orders received from customers specifying yarn type and delivery dates. As a result, the Company does not track unfilled orders for purposes of determining backlog but rather to routinely reconfirm or update the status of potential orders. Consequently, backlog is generally not applicable to the Company. In addition, the Company does not consider its products to be of a seasonal nature.

Competitive Conditions: The textile industry in which the Company currently operates is competitive. The Company processes and sells both high-volume commodity products and more specialized yarns both domestically and internationally into many end-use markets. Pricing is highly competitive with innovation, product quality and customer service being essential for differentiating the competitors within the industry. Product innovation gives our customers competitive advantages, while product quality is an important factor for improving our customers' manufacturing efficiencies. The Company's polyester and nylon segments compete in a worldwide market with a number of other foreign and domestic producers of such yarns. In the sale of polyester filament yarns, major domestic competitors are Dillon Yarn Company, Inc., O'Mara, Inc., Spectrum Dyed Yarns, Inc., KOSA and Teijin AKRA, S.A. de C.V.; and in the sale of nylon yarns, major domestic competitors are Sapona Manufacturing Company, Inc., McMichael Mills, Inc. and Worldtex, Inc. Additionally, there are numerous foreign competitors that not only sell polyester and nylon yarns in the United States but also import foreign sourced fabric and apparel into the United States and other countries in which the Company does business which adversely impacts the sale of Company polyester and nylon yarns. General economic conditions, such as raw material prices, interest rates, currency exchange rates and inflation rates that exist in different countries have a significant impact on the Company's competitiveness, as do various country-to-country trade agreements and restrictions.

Research and Development: The Company spent approximately $1.9 million, $2.3 million and $2.3 million for fiscal years 2004, 2003 and 2002, respectively, on company-sponsored research and development activities. There was no customer-sponsored research and development during the last three fiscal years.

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

Employees: The number of full-time active employees of the Company is approximately 3,600.

Financial Information About Geographic Areas

See Footnote 8 "Business Segments, Foreign Operations and Concentrations of Credit Risk" of this Report for further information regarding the financial information about geographic areas.

Available Information

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

Item 2. ***Properties***

Following is a summary of principal properties owned or leased by the Company:

Polyester Segment Properties

Domestic:

Yadkinville, North Carolina — six plants and two warehouses
Reidsville, North Carolina — one plant
Staunton, Virginia — one plant and one warehouse

Foreign:

Letterkenny, Ireland — four plants
Carrickfergus, Ireland — two warehouses
Alfenas, Brazil — one plant and one warehouse
Sao Paulo, Brazil — one corporate office

Nylon Segment Properties

Domestic:

Madison, North Carolina — one plant and three warehouses
Mayodan, North Carolina — four plants
Fort Payne, Alabama — one central distribution center

Foreign:

Bogota, Colombia — one plant

In addition to the above properties, the corporate administrative office for each of its segments is located at 7201 West Friendly Ave. in Greensboro, North Carolina. Such property consists of a building containing approximately 100,000 square feet located on a tract of land containing approximately 9 acres. This property was purchased at fair market value from the Unifi, Inc. Retirement Savings Plan (the "Plan") in August 2002, prior to which, the Company leased this property from the Plan.

All of the above facilities are owned in fee simple, with the exception of one United States plant which is leased from Bank of America Leasing and Capital LLC pursuant to a Sales-leaseback Agreement entered into on May 20, 1997, as amended; two warehouses in Carrickfergus, Ireland and the office in Sao Paulo, Brazil. Management believes all the properties are well maintained and in good condition. On July 28, 2004, the Company announced that all of the plants in Letterkenny, Ireland would be closed and that the property would be held for sale. It is expected that the Company will terminate the lease relating to the two warehouses in Carrickfergus, Ireland. In fiscal year 2004, the Company's manufacturing plants in the U.S. operated moderately below capacity while the plants in Ireland operated significantly below capacity. Accordingly, management does not perceive any capacity constraints in the foreseeable future.

The dyed facility located in Manchester, England was closed in June 2004, accordingly, the property is not listed above.

The Company leases sales offices and/or apartments in New York; Oberkotzau, Germany; Lyon, France and Hong Kong, China.

The Company also leases two manufacturing facilities to others, one of which is leased to a joint venture in which the Company is a 50% owner.

Item 3. ***Legal Proceedings***

As described under "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Company and DuPont entered into a manufacturing Alliance in June 2000 to produce partially oriented polyester filament yarn. DuPont and the Company have had discussions regarding the Alliance and each party alleged that the other was in breach of material terms of their agreement. Certain of these differences were finally resolved by an Arbitration Panel in June 2003. However, DuPont continued to pursue collection of its claims that the Company had breached its "Transition Period" purchasing obligation from DuPont, which the Arbitration Panel had previously dismissed as it held the Transition Period claims were not properly before it.

On January 13, 2004, Unifi received a Demand For and Notice of Arbitration dated January 12, 2004 (the "Arbitration Notice") claiming 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 damages of "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.

On March 26, 2004, DuPont filed a Motion to File First Amended Demand For and Notice of Arbitration. DuPont's motion asked that its then wholly-owned subsidiary, Invista, Inc., be added as a claimant in the arbitration proceeding. On April 30, 2004, Dupont sold substantially all of the assets of its textiles and interiors businesses, which were owned by Invista, Inc., to subsidiaries of Koch Industries, Inc. of Wichita, Kansas.

Due to the INVISTA asset acquisition as described in Footnote 19 "Subsequent Events", the Arbitration proceeding has been stayed pending the closing of the proposed transaction. Under the terms of the asset purchase agreement, upon the meeting of certain conditions, all claims relating to the Arbitration will be released.

The Company maintains a 34% interest in Parkdale America, LLC ("PAL"), a private company, 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 "PAL Activities"). The Company believes that it 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. It should be noted that the Antitrust Criminal Penalty Enhancement and Reform Act of 2004 (the "Act") provides in part that an "antitrust leniency applicant" is not liable for treble damages. The Company has not yet determined if the provisions of the Act will be applicable to PAL.

The Company accounts for its investment in PAL on the equity method of accounting and as of June 27, 2004, the Company's carrying investment in PAL (including goodwill value) was $142.1 million. During fiscal year 2004, the Company had equity in losses relating to PAL of $6.9 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 has been named in various federal class action lawsuits and a demand for relief under Massachusetts law related to the PAL Activities. The Company has or will deny all the allegations against it in these claims and intends to vigorously defend itself. The Company does not believe it has any responsibility or liability for PAL's actions; however, as in any litigation, the outcomes of these claims are uncertain at this time and the Company is not making any assurances as to the outcome thereof.

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

No matters were submitted to a vote of security holders during the fourth quarter for the fiscal year ended June 27, 2004.

Item 4A. ***Executive Officers of the Company***

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

President and Chief Executive Officer

BRIAN R. PARKE Mr. Parke is 56 and had been the Manager or President of the Company's Irish subsidiary (Unifi Textured Yarns Europe Limited) from its acquisition by the Company in 1984 to January 20, 1999, when he was elected President and Chief Operating Officer of the Company. On January 26, 2000, Mr. Parke was elected Chief Executive Officer of the Company. Additionally, Mr. Parke has been a Vice President of the Company since October 21, 1993 and was elected to the Company's Board of Directors in July 1999. In April 2004, Mr. Parke was elected Chairman of the Board of Directors.

Vice Presidents

THOMAS H. CAUDLE, JR. Mr. Caudle is 53 and has been an employee of the Company since 1982. On January 20, 1999, Mr. Caudle was elected as a Vice President of Manufacturing Services of the Company and on July 26, 2000 he was elected as a Senior Vice President in charge of Manufacturing for the Company. In April 2003, Mr. Caudle was elected Vice President of Global Operations.

BENNY L. HOLDER Mr. Holder is 42 and has been an employee of the Company since January 1995. Prior to coming to the Company, Mr. Holder held various management positions in the Information Technology departments within Memorex Telex from 1990 until 1994 and at Revlon, Inc. from 1994 until 1995. Mr. Holder has held various management positions within the Information Technology area of the Company since joining the Company overseeing all of the Company's IT operations as Managing Director from June 1999 until January 2001 when he was appointed Vice President and Chief Information Officer.

WILLIAM M. LOWE, JR. Mr. Lowe is 51 and joined the Company as Vice President and Chief Financial Officer effective January 5, 2004. Prior to being employed by the Company, Mr. Lowe was Executive Vice President and Chief Financial Officer at Metaldyne Corporation an automotive component and systems manufacturer from 2001 to 2003. From 1991 to 2001 Mr. Lowe held various financial positions at Arvinmeritor, Inc. a diversified manufacturer of automotive components and systems. In April 2004, Mr. Lowe was appointed Vice President, Chief Operating Officer and Chief Financial Officer.

CHARLES F. MCCOY Mr. McCoy is 40, and has been an employee of the Company since January 2000, when he joined the Company as its Assistant Secretary and General Counsel. Mr. McCoy was an Associate Attorney with the law firm of Frazier, Frazier & Mahler, LLP, the firm serving as General Counsel for the Company since 1971, from 1989 until 1993 and a Partner of the firm from 1994 until

December 1999. In October 2000, Mr. McCoy was elected as Vice President, Secretary and General Counsel of the Company and Corporate Compliance Officer in 2002.

ROBERT S. SMITH, JR. Mr. Smith is 36 and has been an employee of the Company since 1986. Mr. Smith has worked for the Company in Manufacturing, Industrial Engineering, Customer Service and Planning and has been involved in the Information Technology transitions. He has also worked in the areas of Business Development, Human Resources, and Six Sigma. He served as Director of Sales and Service until April 2003, when he was elected Vice President of North American Operations.

WILLIE M. WOOLDRIDGE, JR. Mr. Wooldridge is 55 and has been an employee of the Company since 2000. Prior to coming to the Company, Mr. Wooldridge's long history in Human Resources includes 10 years at RCA, 5 years at Nestle, and 3 years at PAI. He started his own consulting firm prior to joining Unifi. In 2000 he joined the Company as Manager of Professional Development, was then elected to Director of Human Resources in 2001 and was elected Vice President of Human Resources in April 2003.

These executive officers, unless otherwise noted, were elected by the Board of Directors of the Registrant at the Annual Meeting of the Board of Directors held on October 22, 2003. Each executive officer was elected to serve until the next Annual Meeting of the Board of Directors or until his successor was elected and qualified.

PART II

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

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

	High	Low
Fiscal year 2003:		
First quarter ended September 29, 2002	$10.90	$6.03
Second quarter ended December 29, 2002	6.98	4.66
Third quarter ended March 30, 2003	6.14	4.36
Fourth quarter ended June 29, 2003	7.15	4.25
Fiscal year 2004:		
First quarter ended September 28, 2003	$ 7.37	$4.25
Second quarter ended December 28, 2003	6.47	4.30
Third quarter ended March 28, 2004	6.68	3.90
Fourth quarter ended June 27, 2004	4.46	2.00

As of September 3, 2004, there were 594 record holders of the Company's common stock. A significant number of the outstanding shares of common stock which are beneficially owned by individuals and entities are registered in the name of Cede & Co. Cede & Co. is a nominee of The Depository Trust & Clearing Corporation, a securities depository for banks and brokerage firms. The Company estimates that there are 4,900 beneficial owners of its common stock.

No dividends have been paid in the past six fiscal years and none are expected to be paid in the foreseeable future.

The following table presents a summary of share repurchases made by Unifi during the fiscal quarter ended June 27, 2004.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
3/29/04 - 4/28/04	—	—	—	6,807,841
4/29/04 - 5/28/04	—	—	—	6,807,841
5/29/04 - 6/27/04	—	—	—	6,807,841
Total	—	—	—	

On April 25, 2003, the Company announced that its Board of Directors had reinstituted the Company's previously authorized stock repurchase plan at its meeting on April 24, 2003. The plan was originally announced by the Company on July 26, 2000 and authorized the Company to repurchase of up to 10.0 million shares of its common stock. During fiscal years 2004 and 2003, the Company repurchased approximately 1.3 million and 0.5 million shares, respectively. The repurchase program was suspended in November 2003 and the Company has no immediate plans to reinstitute the program. Consequently, no shares were repurchased by the Company during the quarter ended June 27, 2004, and there is remaining authority for the Company to repurchase approximately 6.8 million shares of its common stock under the repurchase plan. The repurchase plan has no stated expiration or termination date.

Item 6. *Selected Financial Data*

	As of and for the Fiscal Years Ended				
	June 27, 2004 (52 Weeks)	June 29, 2003 (52 Weeks)	June 30, 2002 (53 Weeks)	June 24, 2001 (52 Weeks)	June 25, 2000 (52 Weeks)
	(Amounts in thousands, except per share data)				
Summary of Operations:					
Net sales	$746,455	$849,116	$914,716	$1,131,157	$1,291,435
Cost of sales	708,009	777,812	840,164	1,034,044	1,127,864
Gross profit	38,446	71,304	74,552	97,113	163,571
Selling, general and administrative expense	50,670	53,676	49,964	62,786	58,063
Provision for bad debts	2,650	3,936	6,285	8,202	8,694
Interest expense	18,705	19,900	22,956	30,123	30,294
Interest income	(2,701)	(1,883)	(2,559)	(2,549)	(2,772)
Other (income) expense	(2,791)	(1,350)	3,239	8,077	1,052
Equity in losses (earnings) of unconsolidated affiliates	7,076	(10,627)	1,704	(2,930)	2,989
Minority interest (income) expense	(6,430)	4,769	—	2,590	9,543
Restructuring charges	27,716	16,893	—	7,545	—
Arbitration costs and expenses(1)	182	19,185	1,129	—	—
Alliance plant closure costs (recovery)	(206)	(3,486)	—	15,000	—
Asset impairments and write downs	38,703	—	—	24,541	—

	As of and for the Fiscal Years Ended				
	June 27, 2004 (52 Weeks)	June 29, 2003 (52 Weeks)	June 30, 2002 (53 Weeks)	June 24, 2001 (52 Weeks)	June 25, 2000 (52 Weeks)
	(Amounts in thousands, except per share data)				
(Loss) income from continuing operations before income taxes and cumulative effect of accounting change	(95,128)	(29,709)	(8,166)	(56,272)	55,708
(Benefit) provision for income taxes	(25,335)	(2,532)	(2,092)	(11,598)	17,675
(Loss) income before cumulative effect of accounting change(2)	(69,793)	(27,177)	(6,074)	(44,674)	38,033
Cumulative effect of accounting change, net of tax	—	—	37,851	—	—
Net (loss) income	$ (69,793)	$ (27,177)	$ (43,925)	$ (44,674)	$ 38,033
Per Share of Common Stock:					
(Loss) income before cumulative effect of accounting change (diluted)	$ (1.34)	$ (.51)	$ (.11)	$ (.83)	$ .65
Cumulative effect of accounting change (diluted)	—	—	(.71)	—	—
Net (loss) income (diluted)	$ (1.34)	$ (.51)	$ (.82)	$ (.83)	$ .65
Balance Sheet Data:					
Working capital	$ 200,685	$ 198,038	$ 167,468	$ 66,038(3)	$ 15,604(4)
Gross property, plant and equipment	1,186,687	1,214,915	1,179,770	1,209,927	1,250,470
Total assets	872,535	1,002,201	1,011,463	1,137,319	1,354,764
Long-term debt and other obligations	263,779	259,395	280,267	259,188	261,830
Shareholders' equity	401,901	479,748	498,040	540,543	622,438

(1) The Arbitration costs and expenses include damages awarded to DuPont and all legal and related professional fees associated with the arbitration process. See Part I, Item 3 "Legal Proceedings," for further information.

(2) The 2002 fiscal year cumulative effect of accounting change represents the write-off of goodwill associated with our nylon reporting segment. See Footnote 2 "Cumulative Effect of Accounting Change" of this Report for further information.

(3) The working capital line item at June 24, 2001, reflects the classification of the outstanding balance under the revolving line of credit of $6.5 million and the accounts receivable securitization of $70.1 million as current liabilities, pending refinancing of these obligations, which occurred on December 7, 2001.

(4) The working capital line item at June 25, 2000, reflects the classification of the outstanding balance under the revolving line of credit of $211.5 million as a current liability as this facility was scheduled to mature in April 2001. This line of credit was subsequently refinanced in December 2000.

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

The following discussion of management's views on the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements and Footnotes included elsewhere in this Annual Report on Form 10-K. The discussion contains forward-looking statements that reflect management's current expectations, estimates and projections. Actual results for the Company could differ materially from those discussed in the forward-looking statements. Factors that could cause such differences are discussed in “Forward-Looking Statements” below in this section and elsewhere in this Annual Report on Form 10-K.

General

The Company conducts its business through three reporting segments, Polyester, Nylon and Sourcing, each of which operates on a global basis. The polyester segment primary manufactures its products in Brazil, South America and the United States, which has the largest operations and number of locations. The Nylon segment consists of operations in the United States and Colombia, South America. The Sourcing segment is a new business initiative that operates out of Unifi’s corporate office in Greensboro, North Carolina.

The textile industry in the United States continues to remain challenging primarily due to the importation of garments and fabrics from lower wage-based countries and over capacity throughout the world. These two factors have resulted in a declining market for the Company domestically and overseas, which has resulted in lower gross margins for both the polyester and nylon segments.

The Company’s primary objective is to return to profitability. During fiscal 2004, and as a result of lower volumes, the Company announced restructuring plans in the third quarter. The March restructuring plan included the closure of a dyeing operation in England and an air-jet texturing operation in North Carolina, the consolidation of plants in Ireland, and a reduction in the domestic workforce. Additionally, the Company announced in the first quarter of fiscal 2005 a restructuring plan to close the remaining operations in Europe.

Review of Fiscal Year 2004 Results of Operations (52 Weeks) Compared to Fiscal Year 2003 (52 Weeks)

Following is a summary of operating income by segment for fiscal years 2004 and 2003, as reported regularly to the Company’s management:

	Polyester	Nylon	Sourcing	Total
		(Amounts in thousands)		
Fiscal 2004				
Net sales	$553,397	$191,603	$1,455	$746,455
Cost of sales	521,007	185,241	1,604	707,852
Selling, general and administrative	37,669	11,973	370	50,012
Segment operating loss	$ (5,279)	$ (5,611)	$ (519)	$ (11,409)
Fiscal 2003				
Net sales	$624,773	$224,343	$ —	$849,116
Cost of sales	563,066	214,200	—	777,266
Selling, general and administrative	39,571	12,719	—	52,290
Segment operating income (loss)	$ 22,136	$ (2,576)	$ —	$ 19,560

As described in Consolidated Financial Statements Footnote 8 “Business Segments, Foreign Operations and Concentrations of Credit Risk”, the adjustments to revenues and expenses required to reconcile the operating segments to consolidated results of operations are comprised primarily of intersegment sales and cost of sales eliminations, fiber costing, the provision for bad debts and certain unallocated manufacturing and selling, general and administrative expenses.

Polyester Operations

Fiscal 2004 polyester net sales decreased $71.4 million, or 11.42% compared to fiscal 2003. The decrease from fiscal year 2003 is primarily attributable to a continuing reduction of average unit prices and volumes as the effects of the weak economy and reduced consumer spending impacted textile and apparel manufacturers. Additionally, the importation of fabric and apparel primarily from Asia into the domestic market continues to erode the business of our U.S. based customers. For fiscal year 2004, the Company's polyester segment's sales volumes and average unit prices declined approximately 10.4% and 1.7%, respectively. Domestically, Unifi's polyester sales volumes declined 9.9% while average unit prices declined approximately 3.9%. Sales from our Ireland operation, on a local currency basis, declined approximately 35.7%, which is primarily attributable to a reduction in volumes of 30.2%. This decrease in volumes is a result of the continuing increase of imports, primarily from Turkey and Indonesia, into the European community. In addition, the closure of the dyeing operation negatively impacted Ireland's volume. The movement in currency exchange rates from 2003 to 2004 positively affected net sales translated to U.S. dollars for the Ireland operations by $8.9 million. Sales from our dyeing operation in England declined 23.5% over the prior year due to a 27.7% decrease in unit volume. This volume decrease is a result of imports into the European community and closing the facility in early June 2004. The dyeing operation was closed in early June 2004 as part of a restructuring plan. Sales from our Brazilian texturing operation, on a local currency basis, increased 6.7% over the prior year due primarily to sales price adjustments for changes in the inflation index which were significant during the fiscal year and due to a 10.9% increase in volumes. The impact on net sales from this operation on a U.S. dollar basis as a result of the change in currency exchange rate was an increase of $8.9 million.

Gross profit on sales for our polyester operations decreased $29.3 million, or 47.5%, over fiscal year 2003, while gross margin (gross profit as a percentage of net sales) declined from 9.9% in fiscal year 2003 to 5.9% in fiscal year 2004. The reduction over the prior year is primarily attributable to an increase in fixed and variable manufacturing costs which were 41.5% of net sales in fiscal year 2004 compared to 35.1% of net sales in fiscal year 2003 as a result of lower volumes. Offsetting the increased fixed and variable manufacturing costs, fiber cost decreased as a percent of net sales from 61.2% in fiscal year 2003 to 60.0% in fiscal year 2004. In addition, the Company recognized, as a reduction of cost of sales, cost savings and other benefits from the Alliance of $38.2 million and $34.6 million for the fiscal years ended June 27, 2004 and June 29, 2003, respectively.

Selling, general and administrative expenses for this segment decreased $1.9 million from 2003 to 2004. This decrease was primarily due to reductions of salaries and benefits as a result of restructuring in fiscal 2004. While the methodology to allocate domestic selling, general and administrative costs remained consistent between fiscal year 2003 and fiscal year 2004, the percentage of such costs allocated to each segment are determined at the beginning of every year based on specific cost drivers. The polyester segment's share of such costs for 2004 were consistent with 2003.

Our international polyester pre-tax results of operations decreased significantly over the prior year. Pre-tax losses of the polyester segment's European operations for fiscal year 2004 increased by $14.0 million over fiscal 2003. The difference is primarily attributable to recording charges of $19.5 million relating primarily to employee severance and asset write downs. Pre-tax results of operations for the polyester segment's Brazilian location improved $0.4 million in fiscal year 2004 over fiscal 2003. This improvement in the Brazilian operations reflects improved manufacturing efficiencies, an expanded customer base and continued efforts to increase sales of value-added products.

Nylon Operations

Nylon net sales decreased $32.7 million, or 14.6% in fiscal 2004 compared to fiscal 2003. Unit volumes for fiscal 2004 decreased by 11.8%, while average sales prices, based on product mix, declined 1.6%. The reductions in sales volume and price continue to be primarily attributable to slower sales at retail resulting from the uncertain economy and consumer spending. Additionally, importation of fabric and apparel into the domestic market continues to erode the business of our U.S. based customers.

Nylon gross profit decreased $3.8 million, or 37.3% in 2004 and gross margin decreased from 4.5% in 2003 to 3.3% in 2004. This was primarily attributable to reductions in per unit sales prices in excess of reduced unit costs for raw materials. Fixed and variable manufacturing costs increased as a percentage of sales from 33.5% in 2003 to 34.1% in 2004 as a result of lower volumes.

Selling, general and administrative expense for the nylon segment decreased $0.7 million in fiscal 2004. This decrease is similar to the decrease realized in the Polyester segment. See further discussion on selling, general and administrative expenses under the polyester segment above for further explanation.

Sourcing Operations

Sourcing was formalized and commenced operations during January 2004. The first six months of operations clearly reflect that the business is in its start-up phase. For the period January through June 2004, the business generated a negative gross margin of $0.1 million, or (10.2)% of its net sales. Selling general and administrative expenses are all direct charges; the business unit does not incur any allocated expenses.

Consolidated Operations

Selling, general and administrative expenses for fiscal year 2004 that were not allocated to the segments totaled approximately $2.3 million. These unallocated selling, general and administrative expenses primarily include costs and expenses of Unifi Asia, Ltd., a wholly-owned subsidiary located in Hong Kong.

For the year ended June 27, 2004, the Company recorded a $2.6 million provision for bad debts. This compares to $3.9 million recorded in the prior year. Fiscal year 2004 continued to be a challenging year for the U.S. textile industry, particularly in the apparel sector while the financial viability of certain customers continues to require close management scrutiny in these difficult economic and industry conditions. Management believes that its reserve for uncollectible accounts receivable is adequate.

Interest expense decreased from $19.9 million in fiscal 2003 to $18.7 million in fiscal 2004. The decrease in interest expense is a function of both lower levels of debt and lower weighted average interest rates throughout fiscal year 2004 compared to the preceding year. The Company had no outstanding borrowings on its domestic bank line at June 27, 2004 and June 29, 2003, and has had no borrowings on the credit facility since October 3, 2002. The weighted average interest rate of Company debt outstanding at June 27, 2004 and June 29, 2003 was 6.4% and 6.3%, respectively. Interest income increased from $1.9 million in 2003 to $2.7 million in 2004 due primarily to an increase in the interest rate earned by the Brazilian operation on its bank deposits.

Other income/ expense changed from $1.3 million of income in 2003 to $2.8 million of income in 2004. The prior year includes 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). The current year income includes net gains from the sale of property and equipment of $3.6 million.

Equity in the net losses, to the extent recognized, of our equity affiliates, PAL, UNIFI-SANS Technical Fibers, LLC (“USTF”) and UNF totaled $7.1 million in fiscal 2004 compared to equity in net income of $10.6 million in fiscal 2003. The decrease in earnings is primarily attributable to PAL experiencing losses on futures contracts and increased raw material pricing.

The Company recorded minority interest income of $6.4 million for fiscal 2004 compared to an expense of $4.8 million in the prior year. Minority interest recorded in the Consolidated Statements of Operations primarily relates to the minority owner’s share of the earnings and cash flows of Unifi Textured Polyester, LLC (“UTP”). UTP was formed with Burlington Industries (“Burlington”) on May 29, 1998, whereby Unifi has an 85.42% ownership interest and Burlington has a 14.58% interest. For the first five years, Burlington was entitled to the first $9.4 million of annual net earnings and the first $12.0 million of UTP’s cash flows on an annual basis, less the amount of UTP net earnings. Subsequent to June 2, 2003, earnings and cash flows of UTP are allocated based on ownership percentages.

The Company recorded restructuring charges in fiscal years 2004 and 2003 of $27.7 million and $16.9 million, respectively. Due to the challenging business conditions over the past two fiscal years, the Company has found it necessary to implement restructuring plans in both years. The fiscal 2003 restructuring plan consisted primarily of employee severance and related costs for 680 management and production level workers. The fiscal 2004 restructuring charges consisted of $12.1 million of fixed asset write downs relating to the closure of a dyed facility in Manchester, England and plant consolidation efforts in Letterkenny, Ireland, $7.8 million of domestic and foreign employee severance, $5.7 million of lease costs associated with the closure of an air jet texturing plant in Altamahaw, North Carolina, and $2.1 million in other related restructuring charges.

The Company concluded its Arbitration proceedings with Dupont regarding the Alliance in June 2003. The award owed by Unifi to Dupont as a result of the Arbitration panel ruling was paid in June 2003. In addition, the line item Arbitration costs and expenses in the Consolidated Statements of Operations includes professional fees incurred throughout the applicable fiscal year. In fiscal 2004, only $0.2 million of legal fees were related to Dupont's Transition Period claim.

In June 2000 the Company and Dupont formed an Alliance to integrate each company's polyester partially oriented yarn (POY) manufacturing facilities into a single production unit to enable each company to match production with the best assets available, significantly improving product quality and yields. On April 4, 2001, DuPont shut its Cape Fear POY facility allowing for the acceleration of the benefits of the Alliance by shutting down older filament manufacturing operations and transferring production to lower cost, more modern and flexible assets. As a result of DuPont shutting down the Cape Fear facility, the Company recognized, in the fourth quarter of 2001, a $15.0 million charge for its 50% share of the severance and costs to dismantle the facility. As of March 28, 2004, the project was completed and the Company's actual share of the severance and dismantlement costs was $11.3 million. Accordingly, the Company in fiscal years 2004 and 2003 reflected reductions of previously recorded amounts of $0.2 million and $3.5 million, respectively, in the Consolidated Statements of Operations.

In fiscal 2004, the Company recorded a $13.5 million write down of goodwill in the polyester segment. In addition, the Company was also required to record an impairment charge of $25.2 million relating to its long-lived domestic polyester assets. For further discussion, see Footnote 15 "Impairment Charges" in the Consolidated Financial Statements.

The Company recognized a tax benefit in the current year, at a 26.6% effective tax rate compared to a tax benefit, at an 8.5% effective tax rate in fiscal 2003. A primary reason for the difference between the statutory and effective tax rate in both fiscal years 2004 and 2003 is that substantially no tax benefit was recognized on losses sustained by certain foreign subsidiaries, as the recoverability of such tax benefits through loss carryforwards was not assured. The current year effective rate was positively affected by a decrease in gains realized from the surrendering of key-man life insurance policies, a reduction in the change to the valuation allowance and increased utilization of state tax losses. The prior year effective tax rate was negatively impacted due to an increase in the valuation allowance associated with certain deferred tax assets. Additionally, due to a change in the legal entity structure, a deferred tax asset associated with a state net operating loss carryforward was written off in the prior year. The combined effect of the above items in 2004 and 2003 was partially offset by earnings of certain foreign operations, which were taxed at lower effective tax rates than the U.S. statutory rate.

As a result of the above, the Company realized during the current year a net loss of $69.8 million or $(1.34) per share compared to a net loss in fiscal year 2003 of $27.2 million, or $(.51) per share.

Outlook

During the second half of fiscal 2004, the Company developed additional strategies to return the Company to profitability. Facing raw material price increases and shrinking margins, the Company implemented a plan to identify all unprofitable product lines and to raise sales prices to a level which would return these products to profitability. The Company's success going forward is primarily based on its ability to pass along price increases to its customers. The Company expects that it will lose a certain percentage of this business to the competition, however loss of this unprofitable business would be expected to improve operating results. The anticipated loss of volume associated with these actions may require additional plant consolidations in the future.

Review of Fiscal Year 2003 Results of Operations (52 Weeks) Compared to Fiscal Year 2002 (53 Weeks)

Following is a summary of operating income by segment for fiscal years 2003 and 2002, as reported regularly to the Company's management:

	Polyester	Nylon	Total
		(Amounts in thousands)	
Fiscal 2003			
Net sales	$624,773	$224,343	$849,116
Cost of sales	563,066	214,200	777,266
Selling, general and administrative	39,571	12,719	52,290
Segment operating income (loss)	$ 22,136	$ (2,576)	$ 19,560
Fiscal 2002			
Net sales	$662,770	$251,986	$914,756
Cost of sales	605,898	236,986	842,884
Selling, general and administrative	37,115	10,243	47,358
Segment operating income	$ 19,757	$ 4,757	$ 24,514

As described in Consolidated Financial Statements Footnote 8 "Business Segments, Foreign Operations and Concentrations of Credit Risk", the adjustments to revenues and expenses required to reconcile the operating segments to consolidated results are comprised primarily of intersegment sales and cost of sales eliminations, fiber costing, the provision for bad debts and certain unallocated manufacturing and selling, general and administrative expenses.

Polyester Operations

Fiscal 2003 polyester net sales decreased $38.0 million, or 5.7% compared to fiscal 2002. The decrease from fiscal year 2002 is primarily attributable to a continuing reduction of average unit prices and volumes as the effects of the weak economy and reduced consumer spending impacted textile and apparel manufacturers. Additionally, the importation of fabric and apparel primarily from Asia into the domestic market continues to erode the business of our U.S. based customers. For fiscal year 2003, global polyester sales volumes and average unit prices declined approximately 2.0% and 3.8%, respectively. Domestically, polyester sales volumes declined 2.0% while average unit prices declined approximately 6.2%. Sales from our Ireland operation, on a local currency basis, declined approximately 9.2%, which is primarily attributable to a reduction in volumes of 13.4%. The movement in currency exchange rates from 2002 to 2003 positively affected net sales translated to U.S. dollars for the Ireland operations by $13.1 million. Sales from our dyeing operation in England declined 5.4% over the prior year due to a 15.1% decreased in unit volume. Sales from our Brazilian texturing operation, on a local currency basis, increased 42.6% over the prior year due primarily to sales price adjustments for changes in the inflation index which were significant during the fiscal year and due to a 5.6% increase in volumes. The impact on net sales from this operation on a U.S. dollar basis as a result of the change in currency exchange rate was a decrease of $26.6 million.

Gross profit on sales for our polyester operations increased $4.8 million, or 8.5%, over fiscal year 2002, while gross margin (gross profit as a percentage of net sales) improved from 8.6% in fiscal year 2002 to 9.9% in fiscal year 2003. The improvement over the prior year is primarily attributable to a reduction in fixed and variable manufacturing costs which were 32.2% of net sales in fiscal year 2003 compared to 37.1% of net sales in fiscal year 2002. In addition, the Company recognized, as a reduction of cost of sales, cost savings and other benefits from the Dupont Alliance of $34.6 million and $33.8 million for the fiscal years ended June 29, 2003 and June 30, 2002, respectively. Offsetting these improvements, fiber cost increased as a percent of net sales from 56.8% in fiscal year 2002 to 61.2% in fiscal year 2003.

Selling, general and administrative expenses for this segment increased $2.5 million from 2002 to 2003. This increase was primarily due to an increase in professional fees associated with the cost reduction plan implemented in April 2003, an increase in training expenses related to the start-up of the Company's Unifi University training initiative, and an increase in insurance premiums. While the methodology to allocate domestic selling, general and administrative costs remained consistent between fiscal year 2002 and fiscal year 2003, the percentage of such costs allocated to each segment are determined at the beginning of every year based on specific cost drivers. The polyester segment's share of such costs for 2003 decreased approximately 1.8% as compared to 2002.

Our international polyester pre-tax results of operations decreased significantly over the prior year. Pre-tax losses of the polyester segment's European operations for fiscal year 2003 declined by $8.3 million over fiscal 2002. This is primarily attributable to the cost reduction initiative that the Company implemented in fiscal 2003 and the resulting $6.3 million charge recorded for employee severance in the fourth quarter. Pre-tax results of operations for the polyester segment's Brazilian location improved $6.3 million in fiscal year 2003 over fiscal 2002. This improvement in the Brazilian operations reflects improved manufacturing efficiencies, an expanded customer base and continued efforts to increase sales of value-added products.

Nylon Operations

Nylon net sales decreased $27.6 million, or 11.0% in fiscal 2003 compared to fiscal 2002. Unit volumes for fiscal 2003 decreased by 8.2%, while average sales prices, based on product mix, declined 3.0%. The reductions in sales volume and price continue to be primarily attributable to slower sales at retail resulting from the uncertain economy and consumer spending. Additionally, importation of fabric and apparel into the domestic market continues to erode the business of our U.S. based customers.

Nylon gross profit decreased $4.9 million, or 32.4% in 2003 and gross margin decreased from 6.0% in 2002 to 4.5% in 2003. This was primarily attributable to reductions in per unit sales prices in excess of reduced unit costs for raw materials. Fixed and variable manufacturing costs remained constant at approximately 30.2% of net sales.

Selling, general and administrative expense for the nylon segment increased $2.5 million in fiscal 2003. This increase is similar to the increase realized in the Polyester segment. See further discussion on selling, general and administrative expenses under the polyester segment above for further explanation.

Consolidated Operations

Selling, general and administrative expenses for fiscal year 2003 that were not allocated to the segments totaled approximately $1.4 million. These unallocated selling, general and administrative expenses primarily include costs and expenses of Unifi Asia, Ltd., a wholly-owned subsidiary located in Hong Kong.

For the year ended June 29, 2003, the Company recorded a $3.9 million provision for bad debts. This compares to $6.3 million recorded in the prior year. Fiscal year 2003 continued to be a challenging year for the U.S. textile industry, particularly in the apparel sector while the financial viability of certain customers continues to require close management scrutiny in these difficult economic and industry conditions. Management believes that its reserve for uncollectible accounts receivable is adequate.

Interest expense decreased from $23.0 million in fiscal 2002 to $19.9 million in fiscal 2003. The decrease in interest expense is a function of both lower levels of debt and lower weighted average interest rates throughout fiscal year 2003 compared to the preceding year. The Company had no outstanding borrowings on its domestic bank line at June 29, 2003, and has had no borrowings on the credit facility since October 3, 2002. At the end of the prior year, the Company had $23.0 million outstanding in funded bank debt. The weighted average interest rate of Company debt outstanding at June 29, 2003 ad June 30, 2002 was 6.3%. Interest income decreased from $2.5 million in 2002 to $1.9 million in 2003 due mostly to a reduction in the interest rate earned by the Brazilian operation on its bank deposits.

Other income/expense changed from $3.2 million expense in 2002 to $1.3 million of income in 2003. The current year includes 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). The prior year expense includes net losses from the sale and write-down to net realizable value of property and equipment and other investments of $3.0 million.

Equity in the net income, to the extent recognized, of our equity affiliates, PAL, USTF and UNF totaled $10.6 million in fiscal 2003 compared to equity in net losses of $1.7 million in fiscal 2002. The increase in net earnings is primarily attributable to improved earnings of PAL, partially as a result of strong volumes and governmental rebate programs, and UNF. USTF's net loss remained substantially unchanged in 2003.

The line item Arbitration costs and expenses in the Consolidated Statements of Operations includes the award owed by Unifi to Dupont as a result of an arbitration panel ruling in June 2003 and professional fees incurred throughout the fiscal year. See Item 3. Legal Proceedings for further discussion.

The Company recorded minority interest expense of $4.8 million for fiscal 2003 compared to $0.0 million in the prior year. The minority interest charge recorded in the consolidated financial statements primarily relates to the minority owner's share of the earnings and cash flows of UTP. UTP realized no earnings, but generated net positive cash flows of $4.8 million in fiscal 2003, whereas, there was no cash generated in 2002.

The Company recognized a tax benefit in fiscal 2003 at a 8.5% effective tax rate compared to a tax benefit, before the cumulative effect of accounting change, at a 25.6% effective tax rate in fiscal 2002. A primary reason for the difference between the statutory and effective tax rate in both fiscal years 2003 and 2002 is that substantially no tax benefit was recognized on losses sustained by certain foreign subsidiaries, as the recoverability of such tax benefits through loss carryforwards was not assured. The current year effective tax rate was also negatively impacted due to an increase in the valuation allowance associated with certain deferred tax assets. Additionally, due to a change in the legal entity structure, a deferred tax asset associated with a state net operating loss carryforward was written off in fiscal 2003. For fiscal 2002, the Company's effective rate was negatively impacted by non-deductible compensation and other expenses. The combined effect of the above items in 2003 and 2002 was partially offset by earnings of certain foreign operations, which were taxed at lower effective tax rates than the U.S. statutory rate.

In June 2001, the Financial Accounting Standards Board issued Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), which prohibits companies from amortizing goodwill and other indefinite-lived intangible assets and, alternatively, requires them to review the assets for impairment annually or more frequently under certain conditions. The Company adopted SFAS 142 on June 25, 2001. In accordance with the transition provisions of this standard, the Company concluded step one of the transitional goodwill impairment test for all of the reporting units of the Company in the second quarter of fiscal year 2002. The results of this phase of the transition testing indicated that the goodwill associated with the nylon business segment might have been impaired. As required by the transitional impairment test provisions, the Company determined whether an impairment loss existed and how much, if any, of the loss was to be recognized. Based upon the results of concluding this step of the transition testing in the fourth quarter of fiscal 2002, all of the goodwill associated with the nylon segment was deemed to be impaired and was subsequently written off. In accordance with the provisions of SFAS 142, any impairment losses recognized upon initial adoption of this standard were required to be written-off as a cumulative effect of a change in accounting principle effective as of the beginning of the fiscal year in which the standard was adopted. Consequently, the Company wrote off the unamortized balance of the goodwill associated with the nylon business segment as of June 25, 2001, of $46.3 million ($37.9 million or $(.71) per diluted share net of taxes) as a cumulative effect of an accounting change. See "Goodwill and Other Intangibles" under Footnote 1 "Accounting Policies and Financial Statement Information" and Footnote 2 "Cumulative Effect of Accounting Change" for further discussion regarding this adjustment.

As a result of the above, the Company realized during fiscal 2003 a net loss of $27.2 million or $(.51) per share compared to a net loss before cumulative effect in accounting change in fiscal year 2002 of $6.1 million, or $(.11) per share. The net loss for 2002 after the cumulative effect of accounting change was $43.9 million or $(.82) per share.

Liquidity and Capital Resources

Cash generated from operations was $4.6 million for fiscal 2004, compared to $95.7 million for fiscal 2003. The primary sources of cash from operations in 2004 were the net loss of $69.8 million adjusted for non-cash adjustments of $128.1 million. Depreciation and amortization of $64.7 million, asset impairment charges of $38.7 million, non-cash portion of restructuring charges of $22.4 million and the provision for bad debt and quality claims of $2.3 million, were all the components of the non-cash adjustments. Other significant sources of cash from operations were lower accounts receivable and inventories of $5.0 million and $2.5 million, respectively, offset by an increase in other current assets and non-current assets of $1.2 million and $4.1 million, respectively. A decrease in accounts payable and accrued expenses of $29.2 million and a reduction in deferred taxes of $27.9 million negatively impacted cash generated from operations. The accounts payable decrease includes $25.0 million representing a delayed billing payment resulting from a vendor's inability to invoice the Company for an extended period of time due to technical issues associated with the vendor's software system. The decrease in deferred taxes primarily relates to a goodwill impairment write-down of $13.5 million, long-lived asset write-downs totaling $25.2 million, and book depreciation in excess of federal tax depreciation of $30.5 million. The line item Other in the cash provided by operating activities section of the Consolidated Statements of Cash Flows primarily includes minority interest and a decrease in cash surrender value of executive split dollar life insurance policies due to the termination of said policies. Working capital changes have been adjusted to exclude the effects of acquisitions and currency translation for all years presented, where applicable. Working capital at June 27, 2004 was $200.7 million.

If the INVISTA asset acquisition closes as expected on or about September 30, 2004, management anticipates borrowing within a range of up to $20.0 to $25.0 million on its bank credit facility primarily due to the Kinston facility currently realizing a net use of cash from operations. Since the assets to be purchased do not include outstanding trade accounts receivables, management does not anticipate any cash in flows for at least the first 30 days under Unifi management. In addition, the Company will be incurring, at certain times over the next six months, cash costs to convert existing information technology systems to Unifi operating systems and to implement numerous cost saving strategies.

The Company utilized $7.3 million for net investing activities and $7.8 million for net financing activities during fiscal 2004. Significant expenditures during this period included $12.1 million for capital expenditures which included the $2.6 million purchase of Sara Lee assets, and $3.6 million in capitalized software costs. Additionally, $8.4 million was expended for repurchasing company stock. Since October 3, 2002, the Company has had no amounts outstanding under its bank credit facility and has availability of $70.0 million as of June 27, 2004.

The Company is not committed for any significant capital expenditures but expects to spend approximately $12.0 million for capital expenditures during fiscal year 2005. Management plans to further reduce its accounts receivable and inventory balances which should improve cash provided by operations. Management is not able to estimate an expected working capital reduction at this time, however, management does expect to use cash generated from operations to fund the capital spending. If the INVISTA asset acquisition is closed and if circumstances warrant, management may elect to incur additional capital expenditures in the range of $10.0-$12.0 million for certain machine modifications or additions.

The World Trade Organization, as part of a staged quota removal, will eliminate all remaining textile and apparel quotas effective January 1, 2005. The Company is uncertain and can not predict the effect of this quota removal on the liquidity of the business.

The Company periodically evaluates the carrying value of its polyester and nylon segments 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 "Goodwill and Other Intangible Assets" and "Long-Lived Assets" under Footnote 1 "Accounting Policies and Financial Statement Information" for further information regarding the accounting guidance applicable to these assets.

Effective July 26, 2000, the Board of Directors increased the Company's remaining authorization to repurchase up to 10.0 million shares of the Company's common stock. The Company purchased 1.4 million shares in fiscal year 2001 for a total of $16.6 million. There were no significant stock repurchases in fiscal year 2002. Effective April 24, 2003, the Board of Directors re-instituted the stock repurchase program. Accordingly, the Company purchased 0.5 million shares in fiscal year 2003 and 1.3 million shares in fiscal 2004. At June 27, 2004, there was remaining authority for the Company to repurchase approximately 6.8 million shares of its common stock under the repurchase plan. The repurchase program was suspended in November 2003 and the Company has no immediate plans to reinstitute the program.

On December 7, 2001, the Company refinanced its $150 million revolving bank credit facility, as amended, and its $100 million accounts receivable securitization, which were entered into on December 20, 2000, with a new five-year $150 million asset based revolving credit agreement (the "Credit Agreement") which terminates on December 7, 2006. On October 29, 2002 the Company notified its lenders of a $50.0 million permanent reduction of the total facility amount, resulting in a total facility amount of $100.0 million effective January 1, 2003.

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 June 27, 2004 the Company had no outstanding borrowings, and had availability of $70.0 million, under the terms of the Credit Agreement.

Effective March 1, 2003, 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 June 27, 2004, was 4.4%. 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 borrowing capacity is less than $25.0 million at any time during the year, 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 June 27, 2004, the Company was in compliance with all covenants under the Credit Agreement as it had availability in excess of $25.0 million.

On July 26, 2004, the Company announced that it had agreed to acquire the INVISTA polyester filament manufacturing assets, including inventories, located in Kinston, North Carolina. The estimated purchase price is $21.0 million, which would be seller financed. The acquisition is subject to a mandatory 30 day waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR") and other customary conditions. On August 9, 2004, the Federal Trade Commission granted early termination of the HSR waiting period. Pursuant to the Alliance Master Agreement, INVISTA 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 INVISTA (a "Call"), INVISTA's U.S. polyester filament business for a price based on a mutually agreed fair market value within a range of $300.0 million to $600.0 million. In the event that the Company does not purchase the INVISTA U.S. polyester filament business, INVISTA 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 within a range of $125.0 million to $175.0 million. If the closing occurs as anticipated on or about September 30, 2004, the Alliance Master Agreement shall terminate in its entirety and all provisions of, rights granted under and covenants made in such agreement shall be of no further force or effect. This includes INVISTA's right to Put its U.S. polyester filament business to Unifi. In addition, if the closing occurs, all claims relating to disputes among the parties to the Alliance will be released. If the closing does not occur, depending on the cause, the Alliance may be reinstated effective July 1, 2004 or the Alliance would be terminated.

The current business climate for U.S. based textile manufacturers remains challenging due to the pending elimination of remaining quotas by the World Trade Organization effective January 1, 2005, disparate worldwide production capacity and demand, weakness at retail and the direct sourcing of garments and fabrics from lower wage-based countries. This highly competitive environment has resulted in a declining market for the Company, domestically and abroad. Consequently, management took certain cost reduction actions in fiscal year 2004, and in July 2004 announced the closure of the Ireland facility, to align the Company's cost structure with current market demands. Should business conditions worsen, management is prepared to take such further actions as deemed necessary to align our capacity and cost structure with market demands. 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 needs and pursue strategic business opportunities.

Contractual Obligations

The Company's significant long term obligations as of June 27, 2004 are as follows:

		Cash Payments Due by Period			
Description of Commitment	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Long-term debt	$267,463	$ 8,497	$ 7,308	$250,661	$ 997
Purchase obligations					
Nylon yarn procurement — U.S.(1)	72,000	28,000	44,000	—	—
Polyester chip procurement — U.S.(2)	66,000	66,000	—	—	—
Polyester yarn procurement — Brazil(3)	16,231	16,231	—	—	—
Operating leases	15,816	4,788	5,481	5,366	181
Other long-term liabilities(4)	847	—	847	—	—
	$438,357	$123,516	$57,636	$256,027	$1,178

(1) The Company's nylon segment has a five year supply agreement with UNF. The Company is obligated to purchase certain to be agreed upon quantities of yarn production from UNF. Since neither UNF nor Unifi submitted an advanced notice of termination to the other party on or before April 28, 2003, the agreement is automatically renewed for a period of two years, and therefore, is set to expire on April 28, 2007. The agreement does not provide for a fixed or minimum amount of yarn purchases, therefore there is a degree of uncertainty associated with the obligation. Accordingly, the Company has estimated its obligation under the agreement based on past history and internal projections.

(2) The Company's polyester segment entered into a chip supply agreement with Nan Ya. The raw material purchased under this agreement is fiber grade polyester dull, semi-dull and bright luster chip which is the primary ingredient used in the Company's spinning plant. The agreement obligates Unifi to purchase all its requirement of this chip from Nan Ya, but does not obligate Unifi to purchase a minimum amount of chip. Due to the uncertainty of the quantities to be purchased and purchase prices, which are based on the cost to Nan Ya of its two primary raw materials pure terephthalic acid and mono-ethylene glycol, the Company has estimated its obligations under the agreement. The estimate is based on past history, budgeted production for fiscal 2005 and internal projections for pricing.

(3) Purchase obligations consist of legally binding purchase order commitments to purchase fiber for the Company's facility in Brazil. These amounts exclude product purchases that are reported as liabilities in the accounts payable section of the Consolidated Balance Sheets.

(4) Other long-term liabilities includes a liability to the Investment and Development Agency in Ireland for a research and development grant awarded the Company's Ireland facility for approved projects that would culminate in new products and processes. The conditions of the grant require a certain level of investment by the Ireland operations in fixed assets, R&D and job maintenance by June 2006. See Footnote 19 "Subsequent Events" for further information.

Recent Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure," (SFAS 148). SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The alternative methods of transition of SFAS 148 are effective for fiscal years ending after December 15, 2002. The disclosure provision of SFAS 148 is effective for interim periods beginning after December 15, 2002. The Company currently uses the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 for its employee stock options. The Company adopted the disclosure provisions of SFAS 148 as of the beginning of the March 2003 quarter. See Footnotes 1 and 5 for additional information regarding stock-based compensation.

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. During the third quarter of fiscal 2004, the Company performed the necessary analysis and determined that no entities are required to be consolidated. See Footnote 10 for disclosure of information related to investments in unconsolidated affiliates.

Off Balance Sheet Arrangements

The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company’s financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The SEC has defined a Company’s most critical accounting policies as those involving accounting estimates that require management to make assumptions about matters that are highly uncertain at the time and where different reasonable estimates or changes in the accounting estimate from quarter to quarter could materially impact the presentation of the financial statements. The following discussion provides further information about accounting policies critical to the Company and should be read in conjunction with Footnote 1, “Accounting Policies and Financial Statement Information” of this Report.

Alliance Cost Savings in the Polyester Segment: Effective June 1, 2000, Unifi and DuPont began operating their manufacturing alliance to produce polyester filament yarn. One of the objectives of the Alliance is to reduce operating costs through collectively planning and operating both companies’ POY facilities as a single production unit. In accordance with the Alliance Agreements, cost savings realized from operating as a single production unit are to be shared equally between the Company and DuPont. Determining the actual cost savings realized requires comprehensive analysis that may take several accounting periods to finalize. As such, accounting estimates are made to record, in the appropriate accounting period, the expected cost savings in the line item cost of sales in the Consolidated Statements of Operations and are adjusted when the analysis is subsequently finalized. The quarterly cost savings adjustment to actual is typically recorded one quarter in arrears. During the past several quarters, the necessary adjustment to record the actual benefit has varied between an unfavorable adjustment of less than $1.0 million to a favorable adjustment of up to $1.5 million; accordingly, it is reasonable likely that materially different amounts would be reported under different conditions or using different assumptions. The same estimates and assumptions have been used consistently since inception of the Alliance; however, if the Company completes the INVISTA asset acquisition (see Footnote 19 “Subsequent Events”), the cost savings have been negotiated at a fixed amount for the period July 1, 2004 through closing. Accordingly, if the INVISTA asset acquisition closes as anticipated, this critical accounting policy will not be applicable to the Company effective June 28, 2004.

Allowance for Doubtful Accounts: An allowance for losses is provided for known and potential losses arising from yarn quality claims and for amounts owed by customers. Reserves for yarn quality claims are based on historical claim experience and known pending claims. The collectibility of accounts receivable is based on a combination of factors including the aging of accounts receivable, historical write-off experience, present economic conditions such as chapter 11 bankruptcy filings within the industry and the financial health of specific customers and market sectors. Since losses depend to a large degree on future economic conditions, and the health of the textile industry, a significant level of judgment is required to arrive at the allowance for doubtful accounts. Accounts are written off when they are no longer deemed to be collectible. The reserve for bad debts is established based on certain percentages applied to accounts receivables aged for certain periods of time and are supplemented by specific reserves for certain customer accounts where collection is no longer certain. The Company's exposure to losses at fiscal year end 2004 on accounts receivable was $136.6 million against which an allowance for losses of $10.7 million was provided. Establishing reserves for yarn claims and bad debts requires management judgment and estimates, which may impact the ending accounts receivable valuation, gross margins (for yarn claims) and the provision for bad debts.

Inventory Reserves: The Company maintains reserves for inventories valued utilizing the FIFO method and may provide for additional reserves over and above the LIFO reserve for inventories valued at LIFO. Such reserves for both FIFO and LIFO valued inventories can be specific to certain inventory or general based on judgments about the overall condition of the inventory. Reserves are established based on percentage markdowns applied to inventories aged for certain time periods. Specific reserves are established based on a determination of the obsolescence of the inventory and whether the inventory value exceeds amounts to be recovered through expected sales prices, less selling costs; and, for inventory subject to LIFO (raw materials only), the amount of existing LIFO reserves. Due to declining prices of raw materials over the past several years and lower inventory levels, the available LIFO reserve has been depleted significantly requiring that supplemental reserves be established. The LIFO reserve at fiscal year end was $1.2 million. Estimating sales prices, establishing markdown percentages and evaluating the condition of the inventories require judgments and estimates, which may impact the ending inventory valuation and gross margins.

Impairment of Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets held and used, an impairment may occur if projected undiscounted cash flows are not adequate to cover the carrying value of the assets. In such cases, additional analysis is conducted to determine the amount of loss to be recognized. The impairment loss is determined by the difference between the carrying amount of the asset and the fair value measured by future discounted cash flows. The analysis conducted requires estimates of the amount and timing of projected cash flows and, where applicable, judgments associated with, among other factors, the appropriate discount rate. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. During the third quarter of fiscal 2004, the Company performed impairment testing on its domestic polyester texturing segment's long-lived assets and determined that a write down was required. Based on the poor historical financial performance of the segment and the uncertainty of the moderate forecasted cash flows, the Company estimated the fair value of assets using a market value of $73.7 million. Management determined that the assets were in fact impaired because the carrying value was $98.9 million. This resulted in the segment recording an impairment charge of $25.2 million. The Company also tested for impairment the entire domestic polyester segment and domestic nylon segment both of which passed. Future events impacting cash flows for existing assets could render a write down necessary that previously required no such write down.

For assets held for disposal, an impairment charge is recognized if the carrying value of the assets exceeds the fair value less costs to sell. Estimates are required of fair value, disposal costs and the time period to dispose of the assets. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. Actual cash flows received or paid could differ from those used in estimating the impairment loss, which would impact the impairment charge ultimately recognized and the Company's cash flows.

Impairment of Goodwill and Other Intangible Assets: Goodwill and other indefinite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The impairment loss is determined by the difference between the carrying amount of the asset and its fair value. Determining fair value involves estimates and judgments that are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. In addition, the determination of what constitutes an indication of possible impairment and the estimation of future cash flows are also significant judgments. As of the fiscal second quarter end, the only remaining unamortized goodwill or intangible assets related to the Company's polyester segment. Annually, the Company tests for impairment in the fourth quarter; however, management decided that certain conditions had occurred which warranted testing during the third quarter. The Company used both the market approach and income approach to arrive at a fair value of $160.0 million for the domestic polyester segment which resulted in the complete write-off of the unamortized goodwill. A 10% increase in the fair value of the domestic polyester segment at the end of the fiscal third quarter would not result in a change to the actual impairment charge reported. Since the Company no longer has any remaining net book value associated with goodwill or intangible assets, this critical accounting policy is not applicable beginning in fiscal 2005 unless new intangibles are acquired or created. See Footnote 15 "Impairment Charges" for additional information.

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

Accrual for Alliance Plant Closure Costs: 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 Footnote 16 "Alliance" and Footnote 17 "Alliance Plant Closure Costs (Recovery)". Now that the project is totally complete, the Company's actual share of the severance and dismantlement costs was $11.3 million. Accordingly, the Company has reflected a reduction of previously recorded amounts of $3.5 million and $0.2 million in fiscal year 2003 and 2004, respectively, in the accompanying Consolidated Statements of Operations. There is no remaining obligation included in accrued liabilities on the Consolidated Balance Sheet as of June 27, 2004. Beginning in fiscal year 2005, this critical accounting policy is no longer applicable.

Valuation Allowance for Deferred Tax Assets: The Company established a valuation allowance against its deferred tax assets in accordance with SFAS No. 109, "Accounting for Income Taxes". The specifically identified deferred tax assets which may not be recoverable are state income tax credits and a long term capital loss carryforward. The realization of some of our deferred tax assets is based on future taxable income within a certain time period and is therefore uncertain. On a quarterly basis, the Company reviews its estimates for future taxable income over a period of years to assess if the need for a valuation allowance exists. To forecast future taxable income, the Company uses historical profit before tax amounts which may be adjusted upward or downward depending on various factors, including perceived trends, and then applies the expected change in deferred tax assets and liabilities in to the future. At June 27, 2004, the Company had a gross deferred tax liability of approximately $199.3 million relating specifically to depreciation. The reversal of this deferred tax liability is the primary item generating future taxable income. Actual future taxable income may vary significantly from management's projections due to the many complex judgments and significant estimations involved, which may result in adjustments to the valuation allowance which may impact the net deferred tax liability and provision for income taxes.

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

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 are described elsewhere in this Form 10-K and may be described from time to time in the Company's other reports and filings with the Securities and Exchange Commission.

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

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

Interest Rate Risk: The Company is exposed to interest rate risk through its borrowing activities, which are further described in Footnote 4 "Long Term Debt and Other Liabilities." The majority of the Company's borrowings are in long-term fixed rate bonds. Therefore, the market rate risk associated with a 100 basis point change in interest rates would not be material to the Company 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 purchases 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 and North American currencies to hedge balance sheet and income statement currency exposures. These contracts are principally entered into for the purchase of inventory and equipment and the sale of Company products into export markets. Counter-parties for these instruments are major financial institutions. If the derivative is a hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings. The Company does not enter into derivative financial instruments for trading purposes nor is it a party to any leveraged financial instruments.

Currency forward contracts are used to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 60-80% of the sales value of these orders is covered by forward contracts. Maturity dates of the forward contracts are intended to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other income and expense. The Company also enters currency forward contracts for committed or anticipated equipment and inventory purchases. Generally 50-75% 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 October 2004 and June 2005, respectively.

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

	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Foreign currency purchase contracts:			
Notional amount	$ 3,660	$ 2,926	$ 3,011
Fair value	3,642	2,658	3,114
Net (gain) loss	$ 18	$ 268	$ (103)
Foreign currency sales contracts:			
Notional amount	$18,833	$18,530	$17,256
Fair value	19,389	17,945	16,769
Net (gain) loss	$ 556	$ (585)	$ (487)

The fair values of the foreign exchange forward contracts at the respective year-end dates are based on year-end forward currency rates. The total impact of foreign currency related items are reported on the line item other (income) expense, net in the Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pretax loss of $0.5 million and $0.3 million for the fiscal years ended June 27, 2004 and June 30, 2002, respectively, and a pre-tax gain of $0.7 million for the fiscal year ended June 29, 2003.

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

The Company's report of independent auditors and consolidated financial statements and related notes follow on subsequent pages of this Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Unifi, Inc.

We have audited the accompanying consolidated balance sheets of Unifi, Inc. as of June 27, 2004, and June 29, 2003, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended June 27, 2004. Our audits also included the Valuation and Qualifying Accounts financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. The consolidated financial statements of Parkdale America, LLC, (a corporation in which the Company has a 34% interest), as of January 3, 2004 and for the year then ended, have been audited by other auditors whose report has been furnished to us; insofar as our opinion on the consolidated financial statements relates to the amounts included for periods on or before January 3, 2004, for Parkdale America, LLC, it is based solely on their report. In the consolidated financial statements, the Company's investment in Parkdale America, LLC is stated at $142,064,000 and $150,586,000, respectively, at June 27, 2004 and June 29, 2003, and the Company's equity in the net income (loss) of Parkdale America, LLC is stated at $(6,857,000) and $11,749,000 for the years then ended.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unifi, Inc. at June 27, 2004 and June 29, 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 27, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the financial statements, in 2002 the Company adopted Statement of Financial Accounting Standard No. 142, requiring the Company to cease the amortization of goodwill and instead review goodwill for impairment on adoption and annually thereafter.

(ERNST & YOUNG LLP SIGNATURE)

Greensboro, North Carolina
July 26, 2004

CONSOLIDATED BALANCE SHEETS

	June 27, 2004	June 29, 2003
	(Amounts in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,221	$ 76,801
Receivables, net	125,949	130,775
Inventories	116,995	118,436
Deferred income taxes	12,237	14,065
Other current assets	10,657	8,235
Total current assets	331,059	348,312
Property, plant and equipment:		
Land	5,722	5,932
Buildings and improvements	222,152	242,005
Machinery and equipment	829,080	827,009
Other	129,733	139,969
	1,186,687	1,214,915
Less accumulated depreciation	(831,229)	(770,102)
	355,458	444,813
Investments in unconsolidated affiliates	163,941	173,731
Goodwill	—	13,462
Other intangible assets, net of accumulated amortization	—	215
Other noncurrent assets	22,077	21,668
	$ 872,535	$1,002,201
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 75,504	$ 80,972
Accrued expenses	44,850	60,288
Income taxes payable	1,523	1,729
Current maturities of long-term debt and other current liabilities	8,497	7,285
Total current liabilities	130,374	150,274
Long-term debt and other liabilities	263,779	259,395
Deferred income taxes	71,921	101,879
Minority interests	4,560	10,905
Commitments and contingencies (Footnote 18)		
Shareholders' equity:		
Common stock, $0.10 par (500,000 shares authorized, 52,115 and 53,399 shares outstanding)	5,211	5,340
Capital in excess of par value	127	—
Retained earnings	437,519	515,572
Unearned compensation	(228)	(302)
Accumulated other comprehensive loss	(40,728)	(40,862)
	401,901	479,748
	$ 872,535	$1,002,201

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended		
	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands, except per share data)	
Net sales	$746,455	$849,116	$914,716
Cost of sales	708,009	777,812	840,164
Selling, general and administrative expense	50,670	53,676	49,964
Provision for bad debts	2,650	3,936	6,285
Interest expense	18,705	19,900	22,956
Interest income	(2,701)	(1,883)	(2,559)
Other (income) expense, net	(2,791)	(1,350)	3,239
Equity in losses (earnings) of unconsolidated affiliates	7,076	(10,627)	1,704
Minority interest (income) expense	(6,430)	4,769	—
Restructuring charges	27,716	16,893	—
Arbitration costs and expenses	182	19,185	1,129
Alliance plant closure costs (recovery)	(206)	(3,486)	—
Asset impairments and write downs	38,703	—	—
Loss before income taxes and cumulative effect of accounting change	(95,128)	(29,709)	(8,166)
Benefit for income taxes	(25,335)	(2,532)	(2,092)
Loss before cumulative effect of accounting change	(69,793)	(27,177)	(6,074)
Cumulative effect of accounting change (net of applicable income tax benefit of $8,420 in 2002)	—	—	37,851
Net loss	$ (69,793)	$ (27,177)	$ (43,925)
Losses per common share (basic and diluted):			
Loss before cumulative effect of accounting change	$ (1.34)	$ (.51)	$ (.11)
Cumulative effect of accounting change	—	—	(.71)
Net loss per common share	$ (1.34)	$ (.51)	$ (.82)

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

CONSOLIDATED STATEMENTS OF CHANGES

IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Unearned Compensation	Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income (Loss) Note 1
					(Amounts in thousands)			
Balance June 24, 2001	53,825	$5,382	$ —	$589,360	$(1,203)	$(52,996)	$540,543	—
Purchase of stock	(2)	—	(16)	—	—	—	(16)	—
Options exercised	13	1	104	—	—	—	105	—
Issuance of restricted stock	15	2	132	—	(134)	—	—	—
Amortization of restricted stock	—	—	—	—	463	—	463	—
Currency translation adjustments	—	—	—	—	—	870	870	$ 870
Net loss	—	—	—	(43,925)	—	—	(43,925)	(43,925)
Balance June 30, 2002	53,851	5,385	220	545,435	(874)	(52,126)	498,040	$(43,055)
Purchase of stock	(451)	(45)	(208)	(2,686)	—	—	(2,939)	—
Cancellation of unvested restricted stock	(1)	—	(12)	—	12	—	—	—
Amortization of restricted stock	—	—	—	—	560	—	560	—
Currency translation adjustments	—	—	—	—	—	11,264	11,264	$ 11,264
Net loss	—	—	—	(27,177)	—	—	(27,177)	(27,177)
Balance June 29, 2003	53,399	5,340	—	515,572	(302)	(40,862)	479,748	$(15,913)
Purchase of stock	(1,304)	(131)	(7)	(8,242)	—	—	(8,380)	—
Cancellation of unvested restricted stock	(2)	—	—	(18)	18	—	—	—
Issuance of restricted stock	22	2	134	—	(136)	—	—	—
Amortization of restricted stock	—	—	—	—	192	—	192	—
Currency translation adjustments	—	—	—	—	—	134	134	$ 134
Net loss	—	—	—	(69,793)	—	—	(69,793)	(69,793)
Balance June 27, 2004	52,115	$5,211	$ 127	$437,519	$ (228)	$(40,728)	$401,901	$(69,659)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended		
	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Cash and cash equivalents at beginning of year	$ 76,801	$ 19,105	$ 6,634
Operating activities:			
Net loss	(69,793)	(27,177)	(43,925)
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change (net of applicable income tax benefit)	—	—	37,851
Net loss of unconsolidated equity affiliates, net of distributions	8,496	4,203	2,438
Depreciation	63,310	69,699	73,899
Amortization	1,420	3,340	4,823
Net (gain) loss on asset sales	(3,277)	425	1,859
Non-cash compensation, forgiveness of debt	—	—	1,175
Non-cash portion of restructuring charges	22,441	13,182	—
Non-cash asset impairment charges	38,703	—	—
Deferred income taxes	(27,908)	(4,698)	4,405
Provision for bad debts and quality claims	2,297	4,023	12,123
Other noncurrent assets	(4,109)	—	—
Other	(3,576)	1,499	1,081
Changes in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments:			
Receivables	4,950	13,656	13,833
Inventories	2,452	(4,027)	9,899
Other current assets	(1,203)	169	(239)
Accounts payable and accrued expenses	(29,215)	7,734	(36,947)
Income taxes	(408)	13,681	7,386
Net cash provided by operating activities	4,580	95,709	89,661
Investing activities:			
Capital expenditures	(12,114)	(23,527)	(10,401)
Investments in unconsolidated equity affiliates	—	—	(11,191)
Return of capital from equity affiliates	1,665	4,238	—
Investment of foreign restricted assets	(1,001)	(3,724)	(3,062)
Collection of notes receivable	581	7,604	—
Increase in notes receivable	(711)	—	—
Proceeds from sale of capital assets	4,352	301	8,387
Other	(107)	(194)	(4,982)
Net cash used in investing activities	(7,335)	(15,302)	(21,249)
Financing activities:			
Net borrowing (repayments) under line of credit	—	(23,000)	(53,585)
Issuance of Company stock	—	—	105
Purchase and retirement of Company stock	(8,380)	(2,939)	(16)
Other	601	530	(2,168)
Net cash used in financing activities	(7,779)	(25,409)	(55,664)
Effect of exchange rate changes on cash and cash equivalents	(1,046)	2,698	(277)
Net increase (decrease) in cash and cash equivalents	(11,580)	57,696	12,471
Cash and cash equivalents at end of year	$ 65,221	$ 76,801	$ 19,105

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies and Financial Statement Information

Principles of Consolidation: The Consolidated Financial Statements include the accounts of the Company and all majority-owned subsidiaries. The portion of the income applicable to non-controlling interests in the majority-owned operations is reflected as minority interests in the Consolidated Statements of Operations. The accounts of all foreign subsidiaries have been included on the basis of fiscal periods ended three months or less prior to the dates of the Consolidated Balance Sheets. All significant intercompany accounts and transactions have been eliminated. Investments in 20% to 50% owned companies and partnerships where the Company is able to exercise significant influence, but not control, are accounted for by the equity method and, accordingly, consolidated income includes the Company's share of the affiliates' income or losses.

Fiscal Year: The Company's fiscal year is the fifty-two or fifty-three weeks ending the last Sunday in June. Fiscal years 2004 and 2003 were comprised of fifty-two weeks and fiscal year 2002 consisted of fifty-three weeks.

Reclassification: The Company has reclassified the presentation of certain prior year information to conform with the current year presentation.

Revenue Recognition: Revenues from sales are recognized at the time shipments are made and include amounts billed to customers for shipping and handling. Costs associated with shipping and handling are included in cost of sales in the Consolidated Statements of Operations. Freight paid by customers is included in net sales in the Consolidated Statements of Operations.

Foreign Currency Translation: Assets and liabilities of foreign subsidiaries are translated at year-end rates of exchange and revenues and expenses are translated at the average rates of exchange for the year. Gains and losses resulting from translation are accumulated in a separate component of shareholders' equity and included in comprehensive income (loss). Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the subsidiary's functional currency) are included in other income or expense in the Consolidated Statements of Operations.

Cash and Cash Equivalents: Cash equivalents are defined as short-term investments having an original maturity of three months or less.

Receivables: The Company extends unsecured credit to its customers as part of its normal business practices. Prior to March 28, 2004, certain customer accounts receivable were factored without recourse. Effective March 26, 2004, the Company ended its factoring relationships due to the cost savings derived from in-house collections. The remaining factored receivables at June 27, 2004 were $0.8 million compared to $20.1 million at June 29, 2003. An allowance for losses is provided for known and potential losses arising from yarn quality claims and for amounts owed by customers that are not factored. Reserves for yarn quality claims are based on historical experience and known pending claims. The ability to collect accounts receivable is based on a combination of factors including the aging of accounts receivable, write-off experience and the financial condition of specific customers. Accounts are written off when they are no longer deemed to be collectible. General reserves are established based on the percentages applied to accounts receivables aged for certain periods of time and are supplemented by specific reserves for certain customer accounts where collection is no longer certain. Establishing reserves for yarn claims and bad debts requires management judgment and estimates, which may impact the ending accounts receivable valuation, gross margins (for yarn claims) and the provision for bad debts. The reserve for such losses was $10.7 million at June 27, 2004 and $12.3 million at June 29, 2003.

Inventories: The Company utilizes the last-in, first-out ("LIFO") method for valuing certain inventories representing 46.1% and 45.4% of all inventories at June 27, 2004, and June 29, 2003, respectively, and the first-in, first-out ("FIFO") method for all other inventories. Inventories are valued at lower of cost or market including a provision for slow moving and obsolete items. Market is considered net realizable value. Inventories valued at current or replacement cost would have been approximately $0.5 million and

$1.4 million in excess of the LIFO valuation at June 27, 2004, and June 29, 2003, respectively. The Company maintains reserves for inventories valued utilizing the FIFO method and may provide for additional reserves over and above the LIFO reserve for inventories valued at LIFO. Such reserves for both FIFO and LIFO valued inventories can be specific to certain inventory or general based on judgments about the overall condition of the inventory. General reserves are established based on percentage markdowns applied to inventories aged for certain time periods. Specific reserves are established based on a determination of the obsolescence of the inventory and whether the inventory value exceeds amounts to be recovered through expected sales prices, less selling costs; and, for inventory subject to LIFO, the amount of existing LIFO reserves. Due to declining prices of raw materials over the past several years and lower inventory levels, the available LIFO reserve has been depleted significantly requiring that supplemental reserves be established to value inventory at the lower of cost or market value. Estimating sales prices, establishing markdown percentages and evaluating the condition of the inventories require judgments and estimates, which may impact the ending inventory valuation and gross margins. The total inventory reserves on the Company's books, including LIFO reserves, at June 27, 2004 and June 29, 2003 were $7.4 million and $7.0 million, respectively. The following table reflects the composition of the Company's inventory as of June 27, 2004 and June 29, 2003:

	June 27, 2004	June 29, 2003
	(Amounts in thousands)	
Raw materials and supplies	$ 53,335	$ 56,855
Work in process	9,688	9,171
Finished goods	53,972	52,410
	$116,995	$118,436

Property, Plant and Equipment: Property, plant and equipment are stated at cost. Depreciation is computed for asset groups primarily utilizing the straight-line method for financial reporting and accelerated methods for tax reporting. For financial reporting purposes, asset lives have been assigned to asset categories over periods ranging between three and forty years.

Goodwill and Other Intangible Assets: Goodwill and other intangible assets at June 27, 2004 consist of acquisition related assets and other intangibles of $0 and $0, respectively compared to $13.5 million and $0.2 million, respectively at June 29, 2003. Based on asset impairment testing performed in the third quarter of fiscal 2004, a $13.5 million charge was recorded to write off all of the remaining goodwill associated with the domestic polyester segment. See Footnote 14 "Consolidation and Cost Reduction Efforts" for further discussion on fiscal year 2004 activity that impacted goodwill.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142, which the Company early adopted on June 25, 2001 (fiscal 2002), no longer permitted the amortization of goodwill and indefinite-lived intangible assets. Instead, SFAS 142 required that these assets be reviewed for impairment upon adoption and annually thereafter, unless specific circumstances indicate that a more timely review is warranted. This impairment test uses a fair value approach rather than the undiscounted cash flows approach previously required by SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" (SFAS 121). Determining fair value involves estimates and judgments that are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. In addition, future events impacting cash flows for existing assets could render a writedown necessary that previously required no such writedown. Amortization of goodwill included in investments in equity investees was also prohibited upon adoption of SFAS 142.

Upon adoption of SFAS 142, the Company was required to review goodwill for impairment based on transitional testing guidance provided for in the standard. Based on the results of the analysis, the goodwill associated with its nylon reporting segment was deemed to be impaired and the Company recorded a charge of $46.3 million ($37.9 million or $(.71) per diluted share net of taxes) as a cumulative effect of accounting change. See Footnote 2 “Cumulative Effect of Accounting Change” for further discussion of this adjustment. The accumulated amortization as of June 27, 2004 and June 29, 2003 associated with goodwill was $0 and $1.5 million, respectively.

Other intangible assets subject to amortization consisted of non-compete agreements entered in connection with business combinations and were being amortized over the terms of the agreements, principally five years. There are no residual values related to these intangible assets. Upon adoption of SFAS 142, the Company was required to reassess the useful lives and residual values of all acquired intangible assets and make any necessary amortization period adjustments. The Company performed this analysis and, based on that assessment, no adjustments were required to be made to the amortization periods or to residual values of the Company’s existing intangible assets. As of June 27, 2004, these intangible assets have been completely amortized. Accumulated amortization at June 27, 2004 and June 29, 2003 for these intangible assets was $10.7 million and $10.5 million, respectively.

Other Noncurrent Assets: Other noncurrent assets at June 27, 2004, and June 29, 2003, consist primarily of the cash surrender value of key executive life insurance policies ($5.1 million and $8.2 million), unamortized bond issue costs and debt origination fees ($3.4 million and $4.4 million), restricted cash investments in Brazil ($6.8 million and $6.7 million), a pension related asset in Ireland ($4.1 million and $0) and various notes receivable due from both affiliated and non-affiliated parties ($2.1 million and $1.9 million), respectively. Debt related origination costs have been amortized on the straight-line method over the life of the corresponding debt, which approximates the effective interest method. Accumulated amortization at June 27, 2004, and June 29, 2003, for unamortized debt origination costs was $6.2 million and $5.4 million, respectively. In the fiscal year 2003, the Company notified its lender of a $50.0 million permanent reduction of the total facility amount, and in fiscal year 2002, the Company refinanced certain debt agreements. These transactions resulted in the origination of new debt fees in fiscal year 2002 and the write-off of previously unamortized fees associated with the permanent reduction in the facility amount in fiscal year 2003. See Footnote 3 “Long-Term Debt and Other Liabilities” for further discussion regarding these refinancing activities. See Footnote 6 “Retirement Plans” for further discussion regarding the pension asset.

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

For assets held for disposal, an impairment charge is recognized if the carrying value of the assets exceeds the fair value less costs to sell. Estimates are required of fair value, disposal costs and the time period to dispose of the assets. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. Actual cash flows received or paid could differ from those used in estimating the impairment loss, which would impact the impairment charge ultimately recognized and the Company’s cash flows.

Income Taxes: The Company and its domestic subsidiaries file a consolidated federal income tax return. Income tax expense is computed on the basis of transactions entering into pretax operating results. Deferred income taxes have been provided for the tax effect of temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. Income taxes have not been provided for the undistributed earnings of certain foreign subsidiaries as such earnings are deemed to be permanently invested.

Losses Per Share: The following table details the computation of basic and diluted losses per share:

	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Numerator:			
Loss before cumulative effect of accounting change	$(69,793)	$(27,177)	$ (6,074)
Cumulative effect of accounting change	—	—	(37,851)
Net loss	$(69,793)	$(27,177)	$(43,925)
Denominator:			
Denominator for basic losses per share — weighted average shares	52,249	53,761	53,730
Effect of dilutive securities:			
Stock options	—	—	—
Restricted stock awards	—	—	—
Diluted potential common shares denominator for diluted losses per share — adjusted weighted average shares and assumed conversions	52,249	53,761	53,730

In fiscal years 2004, 2003 and 2002, options and unvested restricted stock awards had the potential effect of diluting basic earnings per share, and if the company had net earnings in these years, diluted weighted average shares would have been higher than basic weighted average shares by 1,507 shares, 27,821 shares and 2,247 shares, respectively.

Stock-Based Compensation: With the adoption of SFAS 123, the Company elected to continue 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 148 been applied, compensation expense would have been recorded for the options outstanding in fiscal years 2004, 2003 and 2002 based on their respective vesting schedules.

Net loss in fiscal 2004, 2003 and 2002 on a proforma basis assuming SFAS 123 had been applied would have been as follows:

	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands, except per share amounts)	
Net loss as reported	$(69,793)	$(27,177)	$(43,925)
Adjustment: Impact of stock options	(1,656)	(3,204)	(6,363)
Adjusted net loss	$(71,449)	$(30,381)	$(50,288)
Basic and diluted net loss per share:			
As reported	$ (1.34)	$ (.51)	$ (.82)
Adjusted for stock option expense	$ (1.37)	$ (.57)	$ (.94)

No stock options were granted during fiscal 2003. The fair value and related compensation expense of the 2004 and 2002 options were calculated as of the issuance date using the Black-Scholes model with the following assumptions:

Options Granted	2004	2003	2002
Expected life (years)	7.0	—	8.9
Interest rate	2.5%	—	4.35%
Volatility	51.0%	—	41.8%
Dividend yield	—	—	—

Comprehensive Income: Comprehensive income includes net income and other changes in net assets of a business during a period from non-owner sources, which are not included in net income. Such non-owner changes may include, for example, available-for-sale securities and foreign currency translation adjustments. Other than net income, foreign currency translation adjustments presently represent the only component of comprehensive income for the Company. The Company does not provide income taxes on the impact of currency translations as earnings from foreign subsidiaries are deemed to be permanently invested.

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 a change to 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 here in Notes 1 and 5. The Company continues to account for stock-based compensation using the intrinsic value method prescribed in APB 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. During the third quarter of fiscal 2004, the Company performed the necessary analysis and determined that no entities are required to be consolidated at this time. See Footnote 10 for disclosure of information related to investments in unconsolidated affiliates.

Use of Estimates: The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Cumulative Effect of Accounting Change

In June 2001, the Financial Accounting Standards Board issued Financial Accounting Standard No. 142, “Goodwill and Other Intangible Assets” (SFAS 142), which prohibits companies from amortizing goodwill and other indefinite-lived intangible assets and, alternatively, requires them to review the assets for impairment annually or more frequently under certain conditions. The Company adopted SFAS 142 on June 25, 2001. In accordance with the transition provisions of this standard, the Company concluded step one of the transitional goodwill impairment test for all of the reporting units of the Company in the second quarter of fiscal year 2002. The results of this phase of the transition testing indicated that the goodwill associated with the nylon business segment might have been impaired. As required by the transitional impairment test provisions, the Company determined whether an impairment loss existed and how much, if any, of the loss was to be recognized. Based upon the results of concluding this step of the transition testing in the fourth quarter of fiscal 2002, all of the goodwill associated with the nylon segment was deemed to be impaired and was subsequently written off. In accordance with the provisions of SFAS 142, any impairment losses recognized upon initial adoption of this standard were required to be written-off as a cumulative effect of a change in accounting principle effective as of the beginning of the fiscal year in which the standard was adopted. Consequently, the Company wrote off the unamortized balance of the goodwill associated with the nylon business segment as of June 25, 2001, of $46.3 million ($37.9 million after tax) or $.71 per diluted share as a cumulative effect of an accounting change.

3. Long-Term Debt and Other Liabilities

A summary of long-term debt and other liabilities follows:

	June 27, 2004	June 29, 2003
	(Amounts in thousands)	
Bonds payable	$249,269	$249,064
Sale-leaseback obligation	2,742	2,929
Other obligations	20,265	14,687
Total debt	272,276	266,680
Current maturities	(8,497)	(7,285)
Total long-term debt and other liabilities	$263,779	$259,395

On February 5, 1998, the Company issued $250 million of senior, unsecured debt securities (the “Notes”) which bear a coupon rate of 6.50% and mature in February 2008. The estimated fair value of the Notes, based on quoted market prices, at June 27, 2004, and June 29, 2003, was approximately $190.0 million and $211.3 million, respectively.

On December 7, 2001, the Company refinanced its $150 million revolving bank credit facility, as amended, and its $100 million accounts receivable securitization, which were entered into on December 20, 2000, with a new five-year $150 million asset based revolving credit agreement (the “Credit Agreement”) which terminates on December 7, 2006. On October 29, 2002 the Company notified its lender of a $50.0 million permanent reduction of the total facility amount, resulting in a total facility amount of $100.0 million effective January 1, 2003. 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 June 27, 2004, the Company had no outstanding borrowings and availability of $70.0 million under the terms of the Credit Agreement.

Effective March 1, 2003, 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 June 27, 2004 was 4.4%. 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 which is included in interest expense. In connection with the refinancing, the Company incurred fees and expenses aggregating $1.9 million, which are being amortized over the term of the Credit Agreement. Due to the reduction in the facility effective January 1, 2003, the Company wrote off $0.5 million of the related unamortized fees and expenses. In addition, $0.5 million of unamortized fees related to the previously outstanding debt facilities were charged to operations in the second quarter of fiscal year 2002.

The Credit Agreement contains customary covenants for asset based loans that restrict future borrowings and capital spending. In addition, if borrowing capacity is less than $25.0 million at any time during the quarter, covenants 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 June 27, 2004, the Company was in compliance with all covenants under the Credit Agreement as it had availability in excess of $25.0 million.

On May 20, 1997, the Company entered into a sales-leaseback agreement with a financial institution whereby land, buildings and associated real and personal property improvements of certain manufacturing facilities were sold to the financial institution and will be leased by the Company over a sixteen-year period. This transaction has been recorded as a direct financing arrangement. On June 30, 1997, the Company entered into a Contribution Agreement associated with the formation of Parkdale America, LLC ("PAL") (see Footnote 10 "Investments in Unconsolidated Affiliates" for further discussion). As a part of the Contribution Agreement, ownership of a significant portion of the assets financed under the sales-leaseback agreement and the related debt ($23.5 million) were assumed by the LLC. Payments for the remaining balance of the sales-leaseback agreement are due semi-annually and are in varying amounts, in accordance with the agreement. Average annual principal payments over the next four years are approximately $0.4 million. The interest rate implicit in the agreement is 7.84%.

Other obligations consist primarily of acquisition-related liabilities and advances from the Brazilian government. These obligations mature $6.5 million in fiscal year 2005 and $6.5 million in fiscal year 2006. At June 27, 2004, the line item Other Obligations also includes an accrual of $4.7 million relating to an operating lease associated with the Altamahaw, North Carolina plant which was closed during this fiscal year.

4. Income Taxes

Income before income taxes and cumulative effect of accounting change is as follows:

	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Income (loss) before income taxes and cumulative effect of accounting change:			
United States	$(81,199)	$(30,836)	$(9,339)
Foreign	(13,929)	1,127	1,173
	$(95,128)	$(29,709)	$(8,166)

The provision for income taxes for fiscal 2004, 2003 and 2002 consists of the following:

	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Currently payable (recoverable):			
Federal	$ 669	$ (746)	$(6,290)
State	(675)	790	330
Foreign	2,800	2,122	747
Total current	2,794	2,166	(5,213)
Deferred:			
Federal	(28,916)	(4,219)	3,395
State	424	(846)	(274)
Foreign	363	367	—
Total deferred	(28,129)	(4,698)	3,121
Income tax benefits before cumulative effect of accounting change (2002)	$(25,335)	$(2,532)	$(2,092)

Income tax benefits were 26.6%, 8.5% and 25.6% of pretax losses in fiscal 2004, 2003 and 2002, respectively. A reconciliation of the provision for income tax benefits (before the cumulative effect of accounting change in 2002) with the amounts obtained by applying the federal statutory tax rate is as follows:

	June 27, 2004	June 29, 2003	June 30, 2002
Federal statutory tax rate	(35.0)%	(35.0)%	(35.0)%
State income taxes net of federal tax benefit	(2.6)	0.5	1.4
State tax credits, net of federal tax benefit	—	—	(1.8)
Loss of state, net operating loss carry forward	—	5.1	—
Foreign taxes less than domestic rate	(0.9)	(6.1)	(11.4)
Foreign tax benefit of losses less than domestic rate	9.4	13.2	15.5
Increase in valuation allowance	3.5	9.1	—
Nondeductible expenses and other	(1.0)	4.7	5.7
Effective tax rate	(26.6)%	(8.5)%	(25.6)%

The deferred income taxes reflect the net tax effects of temporary differences between the bases of assets and liabilities for financial reporting purposes and their bases for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of June 27, 2004 and June 29, 2003 were as follows:

	June 27, 2004	June 29, 2003
	(Amounts in thousands)	
Deferred tax liabilities:		
Property, plant and equipment	$ 70,872	$ 95,780
Investments in equity affiliates	17,942	18,081
Other	247	1,636
Total deferred tax liabilities	89,061	115,497
Deferred tax assets:		
State tax credits	15,505	16,048
Accrued liabilities and valuation reserves	12,189	14,367
Net operating loss carryforwards	6,477	2,458
Intangible assets	5,416	2,244
Other items	2,927	3,066
Total gross deferred tax assets	42,514	38,183
Valuation allowance	(13,137)	(10,500)
Net deferred tax assets	29,377	27,683
Net deferred tax liability	$ 59,684	$ 87,814

As of June 27, 2004, the Company has available for income tax purposes approximately $17.8 million in federal net operating loss carryforwards that may be used to offset future taxable income. The carryforwards expire in fiscal year 2023 and 2024. The Company also has available for income tax purposes approximately $23.9 million in North Carolina investment tax credits, for which the Company has established a valuation allowance in the amount of $12.3 million. The Company also established a valuation allowance of $0.8 million relating to a long-term capital loss carryforward that expires in fiscal 2006. The credits expire as set forth in the table below:

Year Ended June 27, 2004	2005	2006	2007	2008	2009	Thereafter
Expiration amount	$5,490	$1,913	$3,861	$3,760	$3,762	$5,069

For the years ended June 27, 2004 and June 29, 2003, the valuation allowance increased $2.6 million and $2.7 million, respectively. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, available taxes in the carryback periods, projected future taxable income and tax planning strategies in making this assessment.

5. Common Stock, Stock Option Plans and Restricted Stock

Common shares authorized were 500 million in 2004 and 2003. Common shares outstanding at June 27, 2004 and June 29, 2003 were 52,114,804 and 53,399,052, respectively.

At its meeting on April 24, 2003, the Company's Board of Directors reinstituted the Company's previously authorized stock repurchase plan. During fiscal years 2004 and 2003, the Company repurchased approximately 1.3 million and 0.5 million shares, respectively. At June 27, 2004, there was remaining authority for the Company to repurchase approximately 6.8 million shares of its common stock under the repurchase plan. The repurchase program was suspended in November 2003 and the Company has no immediate plans to reinstitute the program.

On October 21, 1999, the shareholders of the Company approved the 1999 Unifi, Inc. Long-Term Incentive Plan ("1999 Long-Term Incentive Plan"). The plan authorized the issuance of up to 6,000,000 shares of Common Stock pursuant to the grant or exercise of stock options, including Incentive Stock Options ("ISO"), Non-Qualified Stock Options ("NQSO") and restricted stock, but not more than 3,000,000 shares may be issued as restricted stock. The 20,000 and 2,113,652 incentive stock options granted in fiscal 2004 and 2002, respectively were all from the 1999 Long-Term Incentive Plan. In addition to the 3,113,000 common shares reserved for the options that remain outstanding under grants from the 1999 Long-Term Incentive Plan, the Company has previous ISO plans with 421,817 common shares reserved and previous NQSO plans with 533,175 common shares reserved at June 27, 2004. No additional options will be issued under any previous ISO or NQSO plan. The stock option activity for 2004, 2003 and 2002 of all three plans were as follows:

	ISO		NQSO	
	Options Outstanding	**Weighted Avg. $/Share**	**Options Outstanding**	**Weighted Avg. $/Share**
Fiscal 2002:				
Shares under option — beginning of year	2,857,922	$14.31	1,189,175	$25.31
Granted	2,113,652	7.60	—	—
Exercised	(12,704)	8.27	—	—
Expired	(875,363)	13.36	(543,500)	25.99
Forfeited	(21,436)	12.13	—	—
Shares under option — end of year	4,062,071	11.05	645,675	24.74
Fiscal 2003:				
Expired	(151,103)	$17.50	(62,500)	$25.48
Forfeited	(30,196)	9.06	—	—
Shares under option — end of year	3,880,772	10.81	583,175	24.67
Fiscal 2004:				
Granted	20,000	$ 6.85	—	$ —
Expired	(294,252)	12.89	(50,000)	26.66
Forfeited	(71,693)	8.79	—	—
Shares under option — end of year	3,534,827	10.66	533,175	24.48

	Fiscal 2004	Fiscal 2003	Fiscal 2002
ISO:			
Exercisable shares under option — end of year	3,066,249	2,345,905	1,644,249
Option price range	$ 7.33-$25.38	$ 7.33-$25.38	$ 7.33-$25.38
Weighted average exercise price for options exercisable	$ 10.82	$ 11.80	$ 13.91
Weighted average remaining life of shares under option	4.3	6.0	7.9
Fair value of options granted	$ 3.46	$ —	$ 3.46
NQSO:			
Exercisable shares under option — end of year	533,175	583,175	645,675
Option price range	$16.31-$31.00	$16.31-$31.00	$16.31-$31.00
Weighted average exercise price for options exercisable	$ 24.48	$ 24.67	$ 24.74
Weighted average remaining life of shares under option	2.2	3.1	4.0
Fair value of options granted	$ —	$ —	$ —

The following table sets forth the exercise prices, the number of options outstanding and exercisable and the remaining contractual lives of the Company's stock options at June 27, 2004:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining (Years)	Number of Options Exercisable	Weighted Average Exercise Price
$ 6.46 - $ 8.94	1,925,386	$ 7.49	5.3	1,696,510	$ 7.47
9.40 - 14.20	1,187,624	11.72	3.9	947,922	11.79
16.31 - 31.00	954,992	23.43	1.8	954,992	23.43

All of the options granted in fiscal 2004 vest in annual increments over five years from the grant date.

Of the 2,113,652 options granted in fiscal 2002, 1,320,000 of these options were issued with one-third of the options vesting immediately and the remaining two-thirds vesting equally on each of the next two anniversary dates. Of the remaining options granted in fiscal 2002, 560,000 were issued with one-sixth of the options vesting immediately and the remaining five-sixths vesting in equal installments over the next five years. The remaining 233,652 options granted in fiscal 2002 vest in annual increments over five years from the grant date.

During fiscal years 2004 and 2002, the Company issued 21,500 and 15,000 shares respectively, of restricted stock to certain employees under the 1999 Long-Term Incentive Plan. The stock issued vests in equal annual increments ranging from issue date to five years from the grant dates. Compensation expense is recognized over the vesting terms of the shares based on the fair market value at the date of grant or immediately upon employee termination if vesting is accelerated.

6. Retirement Plans

Defined Contribution Plan: The Company matches employee contributions made to the Unifi, Inc. Retirement Savings Plan (the "DC Plan"), an existing 401(k) defined contribution plan, which covers eligible salaried and hourly employees. Under the terms of the Plan, the Company matches 100% of the first three percent of eligible employee contributions and 50% of the next two percent of eligible contributions. For fiscal years ended June 27, 2004, June 29, 2003 and June 30, 2002, the Company incurred $2.5 million, $2.9 million and $3.0 million, respectively, of expense for its obligations under the matching provisions of the DC Plan.

Defined Benefit Plan: The Company's subsidiary in Ireland maintains a defined benefit plan ("DB Plan") that covers substantially all of its employees and is funded by both employer and employee contributions. The plan provides defined retirement benefits based on years of service and the highest three year average of earnings over the ten year period preceding retirement.

During the fourth quarter of 2004, the Company determined that it had not properly recorded or disclosed the DB Plan and a pension asset should have been previously recognized. The Company corrected the error in the fourth quarter by recording a pension asset of $4.1 million. The Company has evaluated the effect of not recording the error and determined that the differences were not material for all periods presented in the Consolidated Financial Statements.

Obligations and funded status is presented below (amounts in thousands):

	June 27, 2004
Change in benefit obligation:	
Benefit obligation at beginning of year	$31,117
Service cost	597
Interest cost	1,789
Plan participants' contributions	477
Actuarial gain	(4,771)
Benefits paid	(477)
Curtailment	477
Translation adjustment	1,728
Benefit obligation at end of year	30,937
Change in plan assets:	
Fair value of plan assets at beginning of year	22,994
Actual return on plan assets	835
Employer contributions	477
Plan participants' contributions	477
Benefits paid	(477)
Translation adjustment	1,314
Fair value of plan assets at end of year	25,620
Funded status	(5,317)
Unrecognized net actuarial loss	9,426
Net amount recognized	$ 4,109

The accumulated benefit obligation was $22.4 million at June 27, 2004.

Amount recognized in the Consolidated Balance Sheet consists of (amounts in thousands):

	June 27, 2004
Prepaid benefit cost	$4,109

Components of Net Periodic Benefit Cost/(Income) (amounts in thousands):

	June 27, 2004
Service cost	$ 1,074
Less plan participants' contributions	(477)
Subtotal	597
Interest cost	1,789
Expected return on plan assets	(1,670)
Amortization of net loss	477
Curtailment	477
Net periodic benefit cost	1,670
Correction of error	(4,109)
Company's net periodic benefit income	$(2,439)

Assumptions:

Weighted-average assumption used to determine benefit obligations as of:

	June 27, 2004
Discount rate	5.60%
Rate of compensation increase	3.75%

Weighted-average assumption used to determine net periodic benefit cost for fiscal year ended:

	June 27, 2004
Discount rate	5.60%
Expected long-term return on plan assets	6.93%
Rate of compensation increase	3.75%

Plan Assets:

The DB Plan's weighted-average asset allocations at June 27, 2004, by asset category are as follows:

	June 27, 2004
Equity securities	78.5%
Debt securities	13.0
Real estate	8.5
Total	100.0%

It is the policy of the Trustees of the DB Plan to delegate the management of DB Plan's assets to professional investment managers, currently KBC Asset Management. The managers have total discretion in relation to investment of DB Plan's assets and provide regular detailed reports to the Trustees on the strategy adopted and on investment performance. No Unifi common stock was held in the plan as of June 27, 2004.

Cash Flows:

Contributions:

The Company expects to contribute $1.2 million to the DB Plan in fiscal 2005.

Estimated Future Benefit Payments:

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (amounts in thousands):

	Amount
Expected future benefit payments:	
During fiscal year ending June 2005	$ 483
During fiscal year ending June 2006	483
During fiscal year ending June 2007	604
During fiscal year ending June 2008	604
During fiscal year ending June 2009	604
During fiscal years ending June 2010 through June 2014	3,384

7. Leases and Commitments

In addition to the direct financing sales-leaseback obligation described in Footnote 4 "Long-term Debt and Other Liabilities," the Company is obligated under operating leases consisting primarily of real estate and equipment. Future obligations for minimum rentals under the leases during fiscal years after June 27, 2004 are $4.8 million in 2005, $3.0 million in 2006, $2.4 million in 2007, $4.3 million in 2008, $1.1 million in 2009, and $0.2 million in aggregate thereafter. Rental expense was $7.8 million, $8.2 million and $8.2 million for the fiscal years 2004, 2003 and 2002, respectively. The Company had no significant binding commitments for capital expenditures at June 27, 2004.

8. Business Segments, Foreign Operations and Concentrations of Credit Risk

The Company and its subsidiaries are engaged predominantly in the processing of yarns by texturing of synthetic filament polyester and nylon fiber with sales domestically and internationally, mostly to knitters and weavers for the apparel, industrial, hosiery, home furnishing, automotive upholstery and other end-use markets. The Company also maintains investments in several minority-owned and jointly owned affiliates.

In accordance with Statement of Financial Accounting Standards No. 131, segmented financial information of the polyester, nylon and sourcing operating segments, as regularly reported to management for the purpose of assessing performance and allocating resources, is detailed below.

	Polyester	Nylon	Sourcing	Total
	(Amounts in thousands)			
Fiscal 2004:				
Net sales to external customers	$553,397	$191,603	$1,455	$746,455
Intersegment net sales	2,815	2,069	—	4,884
Depreciation and amortization	42,884	15,664	—	58,548
Restructuring	25,996	528	—	26,524
Asset impairment	38,703	—	—	38,703
Segment operating loss	(5,279)	(5,611)	(519)	(11,409)
Total assets	471,104	181,310	1,370	653,784
Fiscal 2003:				
Net sales to external customers	$624,773	$224,343	$ —	$849,116
Intersegment net sales	794	1,379	—	2,173
Depreciation and amortization	48,314	17,458	—	65,772
Segment operating income (loss)	22,136	(2,576)	—	19,560
Total assets	553,645	186,025	—	739,670
Fiscal 2002:				
Net sales to external customers	$662,730	$251,986	$ —	$914,716
Intersegment net sales	40	—	—	40
Depreciation and amortization	51,517	19,020	—	70,537
Segment operating income	19,757	4,757	—	24,514
Total assets	557,097	219,186	—	776,283

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 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 method (see Footnote 1 "Accounting Polices and Financial Statement Information"), 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 $2.7 million, $3.9 million and $6.3 million for fiscal years 2004, 2003 and 2002, respectively. For significant capital projects, capitalization is delayed for management segment reporting until the facility is substantially complete. However, for consolidated 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 change in the polyester segment total assets between fiscal year end 2003 and 2004 reflects decreases in fixed assets of $83.3 million and current assets of $3.1 million, and an increase in non-current assets of $3.9 million. The fixed asset reduction is primarily associated with asset impairment charges and current year depreciation. The current assets decrease was primarily due to a decrease in inventories of $9.8 million, offset by an increase in cash, accounts receivable and other current assets of $3.1 million, $2.7 million and $1.0 million, respectively. The increase in non-current assets relates to a pension asset. The net decrease of $4.7 million in the nylon segment total assets for this period is primarily a result of a decrease in fixed assets of $12.5 million, offset by an increase in inventories and accounts receivable of $5.0 million and $2.7 million, respectively. The reduction in property and equipment is primarily associated with current year depreciation. The sourcing segment was a new segment initially reported by the Company in its Form 10-Q in the immediately preceding quarter ended March 28, 2004. At June 27, 2004, the sourcing segment's assets were primarily comprised of inventory, accounts receivable and other current assets of $0.9 million, $0.4 million and $0.1 million, respectively.

The following tables present reconciliations from segment data to consolidated reporting data:

	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Depreciation and amortization:			
Depreciation and amortization of specific reportable segment assets	$ 58,548	$ 65,772	$70,537
Depreciation of allocated assets	4,804	5,028	5,881
Amortization of allocated assets and deferred compensation	1,378	2,239	2,304
Consolidated depreciation and amortization	$ 64,730	$ 73,039	$78,722
Operating income (loss):			
Reportable segments operating (loss) income	$(11,409)	$ 19,560	$24,514
Net standard cost (income) expense adjustment to LIFO	(1,480)	546	(2,750)
Unallocated manufacturing expense	—	—	70
Unallocated selling, general, and administrative expense	2,295	1,386	2,606
Provision for bad debts	2,650	3,936	6,285
Interest expense	18,705	19,900	22,956
Interest income	(2,701)	(1,883)	(2,559)
Other (income) expense	(2,791)	(1,350)	3,239
Equity in losses (earnings) of unconsolidated affiliates	7,076	(10,627)	1,704
Minority interests (income) expense	(6,430)	4,769	—
Alliance plant closure costs (recovery)	(206)	(3,486)	—
Arbitration costs and expenses	182	19,185	1,129
Restructuring charges	27,716	16,893	—
Asset impairments and write downs	38,703	—	—
Loss before income taxes and cumulative effect of accounting change	$(95,128)	$(29,709)	$ (8,166)

	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Total assets:			
Reportable segments total assets	$653,784	$ 739,670	$ 776,283
Corporate current assets, net of LIFO reserve	40,762	62,826	22,746
Unallocated corporate fixed assets	22,586	15,901	12,818
Other non-current corporate assets	12,229	30,824	38,430
Investments in unconsolidated affiliates	163,941	173,731	180,930
Intersegment notes and receivables	(20,767)	(20,751)	(19,744)
Consolidated assets	$872,535	$1,002,201	$1,011,463

The Company's domestic operations serve customers principally located in the southeastern United States as well as international customers located primarily in Canada, Mexico and Israel and various countries in Europe, Central America, South America and South Africa. Export sales from our U.S. operations aggregated $112.4 million in 2004, $107.9 million in 2003 and, $108.2 million in 2002. During fiscal 2004, 2003 and 2002 the Company did not have sales to any one customer in excess of 10% of consolidated revenues. The concentration of credit risk for the Company with respect to trade receivables is mitigated due to the large number of customers and dispersion across different end-uses and geographic regions.

The Company's foreign operations primarily consist of manufacturing operations in Ireland, Brazil and Colombia. On March 2, 2004, the Company announced its plan to close its dyed facility in Manchester, England. The facility ceased all operations in early June 2004. The Colombian operation was closed in June 2001 in an effort to consolidate operations, and re-opened in August 2002 to fill a need to manufacture certain products in the region. Net sales, pre-tax operating income and total assets of the Company's foreign and domestic operations are as follows:

	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Foreign operations:			
Net sales	$161,595	$169,147	$165,424
Pre-tax income (loss)	(13,929)	1,135	1,173
Total assets	150,040	173,780	159,631
Domestic operations:			
Net sales	$584,860	$679,969	$749,292
Pre-tax income (loss)	(81,199)	(30,844)	(9,339)
Total assets	722,495	828,421	851,832

9. Derivative Financial Instruments and Fair Value of Financial Instruments

Effective June 26, 2000, the Company began accounting for derivative contracts and hedging activities under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" which requires all derivatives to be recorded on the balance sheet at fair value. There was no cumulative effect adjustment of adopting this accounting standard. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or are recorded in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The Company does not enter into derivative financial instruments for trading purposes nor is it a party to any leveraged financial instruments.

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 purchases 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 and North American currencies to hedge balance sheet and income statement currency exposures. These contracts are principally entered into for the purchase of inventory and equipment and the sale of Company products into export markets. Counter-parties for these instruments are major financial institutions.

Currency forward contracts are used to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 60-80% of the sales value of these orders is covered by forward contracts. Maturity dates of the forward contracts are intended to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other income and expense. The Company also enters currency forward contracts for committed or anticipated equipment and inventory purchases. Generally 50-75% 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 October 2004 and June 2005, respectively.

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

	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Foreign currency purchase contracts:			
Notional amount	$ 3,660	$ 2,926	$ 3,011
Fair value	3,642	2,658	3,114
Net (gain) loss	$ 18	$ 268	$ (103)
Foreign currency sales contracts:			
Notional amount	$18,833	$18,530	$17,256
Fair value	19,389	17,945	16,769
Net (gain) loss	$ 556	$ (585)	$ (487)

The fair values of the foreign exchange forward contracts at the respective year-end dates are based on year-end forward currency rates. The total impact of foreign currency related items are reported on the line item other (income) expense, net in the Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, and was a pretax loss of $0.5 million and $0.3 million for the fiscal years ended June 27, 2004 and June 30, 2002, respectively, and a pre-tax gain of $0.7 million for the fiscal year ended June 29, 2003.

The Company uses the following methods in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents, trade receivables and trade payables — The carrying amounts approximate fair value because of the short maturity of these instruments.

Long-term debt — The fair value of the Company's borrowings is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities (see Footnote 4 "Long-Term Debt and Other Liabilities").

Foreign currency contracts — The fair value is based on quotes obtained from brokers or reference to publicly available market information.

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 “USTF”) to produce low-shrinkage high tenacity nylon 6.6 light denier industrial (LDI) yarns in North Carolina. USTF incorporated the two-stage light denier industrial nylon yarn business of Solutia, Inc. (Solutia) which was purchased when the venture was formulated. Solutia exited the two-stage light denier industrial yarn business transitioning production from its Greenwood, SC site to the USTF Stoneville, North Carolina facility, a former Unifi manufacturing location. The Company receives annual rental income of $0.3 million from USTF for the use of the facility. The Company also received from USTF during fiscal 2004 payments totaling $0.8 million which consisted of reimbursements for rendering general and administrative services and purchasing various manufacturing related items for the operations. The USTF 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 and Caribbean Basin Initiative 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 to improve operating performance by focusing on improved manufacturing processes and technological performance have provided improved performance in the second half of fiscal 2004.

Beginning with the second quarter of fiscal 2003, management of the joint venture determined that 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, approximating $25.0 million as of June 27, 2004, is recoverable. During the fourth quarter of fiscal 2004, a test of the recoverability of its long lived assets was completed, and it was determined that the carrying value of such assets was recoverable through expected future cash flows. 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. (“UNF”). The joint venture produces approximately 16.0 million pounds of nylon 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.

On June 30, 1997, the Company and Parkdale Mills, Inc. entered into a contribution agreement whereby both companies contributed all of the assets of their spun cotton yarn operations utilizing open-end and air jet spinning technologies to create PAL. In exchange for its contributions, the Company received a 34% ownership interest in the joint venture. PAL is a producer of cotton and synthetic yarns for sale to the textile and apparel industries primarily within North America. PAL has 15 manufacturing facilities primarily located in central and western North Carolina. See Footnote 18 “Commitments and Contingencies” for further information regarding this investment.

In addition, the Company continues to maintain a 16.1% interest in Micell Technologies, Inc.

Condensed balance sheet and income statement information of the combined unconsolidated equity affiliates as of and for the fiscal years ended June 27, 2004, June 29, 2003, and June 30, 2002 are as follows:

	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Current assets	$210,858	$207,953	$214,166
Noncurrent assets	150,959	179,826	212,501
Current liabilities	38,068	28,962	33,256
Shareholders' equity and capital accounts	267,135	294,946	313,862
Net sales	469,512	453,029	460,987
Gross profit	7,880	56,197	31,329
(Loss) Income from operations	(15,928)	33,392	8,903
Net (loss) income	(20,183)	32,516	(1,508)

USTF and PAL are organized as partnerships for U.S. tax purposes. Taxable income and losses are passed through USTF and PAL to the members in accordance with the Operating Agreements of USTF and PAL. For the fiscal years ended June 27, 2004, June 29, 2003 and June 30, 2002, distributions received by the Company from its equity affiliates amounted to $3.1 million, $19.1 million and $0.9 million, respectively. Included in the above net sales amounts for the 2004, 2003 and 2002 fiscal years are sales to Unifi of approximately $27.5 million, $30.8 million and $29.5 million, respectively. These amounts represent sales of nylon POY from UNF for use in the production of textured nylon yarn in the ordinary course of business.

11. Supplemental Cash Flow Information

Supplemental cash flow information is summarized below:

	Fiscal Years Ended		
	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Cash payments (receipts) for:			
Interest	$16,842	$ 17,543	$ 23,462
Income taxes, net of refunds	2,437	(12,013)	(13,909)

12. Minority Interest

Effective May 29, 1998, the Company formed Unifi Textured Polyester, LLC ("UTP") with Burlington Industries, Inc. ("Burlington") to manufacture and market natural textured polyester yarns. The Company has an 85.42% interest in UTP and Burlington has 14.58%. For the first five years, Burlington was entitled to the first $9.4 million of annual net earnings and the first $12.0 million of UTP's cash flows on an annual basis, less the amount of UTP net earnings. Subsequent to this five-year period, earnings and cash flows are allocated based on ownership percentages. UTP's assets, liabilities and earnings are consolidated with those of the Company and Burlington's interest in the UTP is included in the Company's financial statements as minority interest expense. Minority interest (income) expense for Burlington's share of UTP in fiscal 2004, 2003 and 2002 was $(6.5) million, $4.7 million, and $0, respectively.

13. Fiscal Year 1999 Early Retirement and Termination Charge

During the third quarter of fiscal 1999, the Company recognized a $14.8 million charge associated with the early retirement and termination of 114 salaried employees. The charge was recorded as a component of selling, general and administrative expenses in the amount of $8.2 million and cost of goods sold in the amount of $6.6 million. Substantially all employees were terminated effective March 31, 1999, with cash payments for most severance being paid over the next three years. In the fourth quarter of fiscal 2001, an additional charge of $1.6 million was recorded for the estimated increase in the present value of future health and dental costs associated with these terminated employees. For fiscal years 2004, 2003 and 2002, a similar charge was recorded in the amount of $0.3 million, $0.5 million and $0.2 million, respectively. In addition, an adjustment was recorded in fiscal years 2004, 2003 and 2002 to replenish the reserve for the difference between the actual cash payments and the present value of the liability originally recorded, which represented interest expense. At June 27, 2004, a reserve of $3.4 million remained on the Consolidated Balance Sheet that is expected to equal the present value of future cash payments for remaining severance and medical and dental expenses associated with these terminated employees. The table below summarizes the activity associated with this charge for fiscal years June 27, 2004, June 29, 2003 and June 24, 2002:

	June 27, 2004	June 29, 2003	June 30, 2002
		(Amounts in thousands)	
Balance at beginning of fiscal year	$ 3,860	$ 4,066	$ 5,636
Change in estimate for original charges	314	528	187
Present value adjustment	327	373	386
Cash payments	(1,083)	(1,107)	(2,143)
Balance at end of fiscal year	$ 3,418	$ 3,860	$ 4,066

14. Consolidation and Cost Reduction Efforts

During the second and fourth quarters of fiscal 2002, the Company recorded a $1.4 million charge for severance costs associated with consolidation and reduction of selling, general and administrative expenses.

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.

In fiscal 2004, the Company recorded restructuring charges of $27.7 million, which consisted of $12.1 million of fixed asset write-downs associated with the closure of a dye facility in Manchester, England and the consolidation of the Company’s polyester operations in Ireland, $7.8 million of employee severance for approximately 280 management and production level employees, $5.7 million in lease related costs associated with the closure of the facility in Altamahaw, NC and other restructuring costs of $2.1 million primarily related to the various plant closures. Severance payments are being made in accordance with various plan terms and the expected completion date is July 2005. The lease obligation consists of rental payments of $0.8 million in fiscal 2005, $0.8 million in fiscal 2006, $1.0 million in fiscal 2007 and $3.0 million in fiscal 2008.

The table below summarizes changes to the accrued severance and accrued restructuring accounts for the fiscal years ended June 29, 2003 and June 27, 2004:

	Balance at June 30, 2002	Additional Charges	Adjustments	Amount Used	Balance at June 29, 2003
			(Amounts in thousands)		
Accrued severance	$ —	$16,893	$ —	$3,000	$13,893

	Balance at June 29, 2003	Additional Charges	Adjustments	Amount Used	Balance at June 27, 2004
			(Amounts in thousands)		
Accrued severance	$13,893	$ 7,847	$(10)	$18,781	$2,949
Accrued restructuring	—	19,869	—	13,215	6,654

The “Amount Used” relating to accrued restructuring of $13.2 million for fiscal year 2004 primarily consists of fixed asset write downs.

15. Impairment Charges

During the third quarter of fiscal 2004, management performed impairment testing for the domestic textured polyester business due to the continued challenging business conditions and reduction in volume and gross profit in the preceding quarter. As a result, management determined the fair value of the plant, property and equipment at $73.7 million using market prices of the assets. Management determined that the assets were in fact impaired because the carrying value was $98.9 million. This resulted in a $25.2 million write down of the assets, which is included in the “Asset impairments and write downs” line item in the Consolidated Statements of Operations. Subsequent to performing the SFAS No. 144 testing above, the entire domestic polyester segment was tested for impairment as of February 29, 2004. As a result of the testing, the Company recorded a goodwill impairment charge of $13.5 million in the third quarter to reduce the segment’s goodwill to $0. The Company used the income approach and market approach to determine the fair value. The $13.5 million charge also is included in the “Asset impairments and write downs” line item in the Consolidated Statements of Operations.

The following table details the two impairment charges which are reported as a single line item in the Consolidated Statements of Operations (amounts in thousands):

	June 27, 2004
Write down of long-lived assets	$25,241
Goodwill impairment	13,462
	$38,703

16. 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 partially oriented yarn (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’s subsidiary, Invista, Inc. held Dupont’s textiles and interiors assets and businesses. Such assets and businesses were subsequently sold to subsidiaries of Koch Industries, Inc. (“Koch”). Accordingly, INVISTA S.a.r.l. (“INVISTA”), a subsidiary of Koch, and the Company continue to own and operate their respective sites and employees remained with their respective employers. INVISTA continues to provide POY to the marketplace and the Company continues to provide textured yarn to the marketplace.

The Company recognized, as a reduction of cost of sales, cost savings and other benefits from the alliance of $38.2 million, $34.6 million and $33.8 million for the fiscal years ended June 27, 2004, June 29, 2003 and June 30, 2002, respectively.

At termination of the Alliance or at any time after June 1, 2005, INVISTA 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 INVISTA (a “Call”), INVISTA’s U.S. polyester filament business for a price based on a mutually agreed fair market value within a range of $300.0 million to $600.0 million. INVISTA'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 INVISTA's U.S. polyester filament business will be partially dependant upon the level of underlying cash flows generated by such business; such cash flow levels are not known by the Company at this time. In the event that the Company does not purchase the INVISTA U.S. polyester filament business, INVISTA 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 within a range of $125.0 million to $175.0 million.

On July 26, 2004, the Company announced that it had agreed to acquire the INVISTA polyester filament manufacturing assets, including inventories, located in Kinston, North Carolina. The estimated purchase price is $21.0 million, which would be seller financed. The acquisition is subject to a mandatory 30 day waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR") and other customary conditions. On August 9, 2004, the Federal Trade Commission granted early termination of the HSR waiting period. If the closing occurs as anticipated on or about September 30, 2004, the Alliance Master Agreement shall terminate in its entirety and all provisions of, rights granted under and covenants made in such agreement shall be of no further force or effect. In addition, if the closing occurs, all claims relating to disputes among the parties to the Alliance will be released. If the closing does not occur, depending on the cause, the Alliance may be reinstated effective July 1, 2004 or the Alliance would be terminated. See Footnote 17 "Alliance Plant Closure Costs (Recovery)" for additional information involving the Alliance.

17. Alliance Plant Closure Costs (Recovery)

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 represented an estimate of 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 Footnote 16 "Alliance." As of March 28, 2004, the project was completed and the Company's actual share of the severance and dismantlement costs were $11.3 million. Accordingly, in the accompanying Consolidated Statements of Operations, the Company in fiscal years 2004 and 2003 reflected reductions of previously recorded amounts of $0.2 million and $3.5 million, respectively. The table below summarizes the activity associated with this charge for fiscal years June 27, 2004 and June 29, 2003:

	June 27, 2004	June 29, 2003
	(Amounts in thousands)	
Balance at beginning of fiscal year	$ 256	$ 6,632
Change in estimate for original charges	(206)	(3,486)
Cash payments	(50)	(2,890)
Balance at end of fiscal year	$ —	$ 256

18. Commitments and Contingencies

As discussed in Note 10, the Company maintains a 34% interest in PAL, a private company, 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 "PAL Activities"). The Company believes that it 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. It should be noted that the Antitrust Criminal Penalty Enhancement and Reform Act of 2004 (the “Act”) provides in part that an “antitrust leniency applicant” is not liable for treble damages. The Company has not yet determined if the provisions of the Act will be applicable to PAL.

The Company accounts for its investment in PAL on the equity method of accounting and as of June 27, 2004, the Company’s carrying investment in PAL (including goodwill value) was $142.1 million. During fiscal year 2004, the Company had equity in losses relating to PAL of $6.9 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 Company has been named in various federal class action lawsuits and a demand for relief under Massachusetts law related to the PAL Activities. The Company has or will deny all the allegations against it in these claims and intends to vigorously defend itself. The Company does not believe it has any responsibility or liability for PAL’s actions; however, as in any litigation, the outcomes of these claims are uncertain at this time and the Company is not making any assurances as to the outcome thereof.

19. Subsequent Events

On July 27, 2004, the Company announced that it will close its manufacturing operations in Letterkenny, Ireland by the end of October 2004. The cost of closing the facilities is estimated at a range of $20.0 to $24.0 million consisting primarily of severance and is expected to be recorded in the first quarter of fiscal 2005.

On May 11, 2004, the Company entered into an agreement to acquire the hosiery yarn and texturing assets of Sara Lee Branded Apparel and to become the hosiery manufacture’s nylon supplier. Under the terms of the agreement the Company purchased certain hosiery yarn and texturing assets from Sara Lee Corporation for $2.6 million and signed a five year supply agreement. The purchase, which closed on August 6, 2004, was financed with a $1.0 million cash payment at closing and a short-term note for the balance.

20. Quarterly Results (Unaudited)

Quarterly financial data for the fiscal years ended June 27, 2004 and June 29, 2003 is presented below:

	First Quarter (13 Weeks)	Second Quarter (13 Weeks)	Third Quarter (13 Weeks)	Fourth Quarter (13 Weeks)
	(Amounts in thousands, except per share data)			
2003:				
Net sales	$221,530	$201,859	$219,633	$206,094
Gross profit	23,117	14,949	15,539	17,699
Net income (loss)	4,327	(2,170)	1,144	(30,478)
Earnings (losses) per share (basic)	.08	(.04)	.02	(.57)
Earnings (losses) per share (diluted)	.08	(.04)	.02	(.57)
2004:				
Net sales	$180,204	$183,667	$190,915	$191,669
Gross profit	10,587	3,664	8,787	15,408
Net (loss) income	(4,562)	(9,221)	(49,992)	(6,018)
Losses per share (basic)	(0.09)	(0.18)	(.96)	(.11)
Losses per share (diluted)	(0.09)	(0.18)	(.96)	(.11)

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

The Company has not changed accountants nor are there any disagreements with its accountants, Ernst & Young LLP, on accounting and financial disclosure that should be reported pursuant to Item 304 of Regulation S-K.

Item 9A. ***Controls and Procedures***

The Company maintains controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted 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 the 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 June 27, 2004.

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.

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors and Executive Officers of Registrant and Compliance with Section 16(a) of The Exchange Act***

The information required by this item with respect to executive officers is set forth above in Item 4A. The information called for by this item with respect to Directors and Section 16 Matters is set forth in the Company's definitive proxy statement for its 2004 Annual Meeting of Shareholders (the "Proxy Statement") under the headings "Election of Directors", "Nominees for Election as Directors" and "Section 16(a) Beneficial Ownership Reporting and Compliance", and is incorporated herein by reference. The information called for by this item with respect to the presence of an audit committee financial expert and the identification of the members of the Company's Audit Committee is set forth in the Proxy Statement under the headings "Corporate Governance Matters — Audit Committee Financial Expert" and "Committees of the Board of Directors", and is incorporated herein by reference.

Corporate Governance Guidelines and Committee Charters

In furtherance of its longstanding goal of providing effective governance of the Company's business for the benefit of Shareholders, the Board of Directors has adopted the Corporate Governance Guidelines. Each of the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee operate under written charters that have been approved by the Board of Directors. The Corporate Governance Guidelines and the committee charters are available on our website at *www.unifi-inc.com* under the "Investor Relations" section. In addition, print copies of the Corporate Governance Guidelines are available to any Shareholder that requests a copy. Information on the Company's website, however, does not form a part of this Form 10-K.

Code of Business Conduct and Ethics; Ethical Business Conduct Policy Statement

The Company has adopted a written Code of Business Conduct and Ethics applicable to members of the Board of Directors and Executive Officers (the "Code of Business Conduct and Ethics"). The Company has also adopted the Ethical Business Conduct Policy Statement (the "Policy Statement") that applies to all employees. The Code of Business Conduct and Ethics and the Policy Statement are available on the Company's website referenced above, under the "Investor Relations" section and print copies are available to any shareholder that requests a copy. Any amendments to or waiver of the Code of Business Conduct and Ethics will be disclosed on the Company's website promptly following the date of such amendment or waiver. a) Directors of Registrant: The information included under the headings "Election of Directors", "Nominees for Election as Directors", "Beneficial Ownership of Common Stock By Directors and Executive Officers", "Directors' Compensation", "Committees of the Board of Directors", and compliance with Section 16(a) of The Securities and Exchange Act of the definitive proxy statement filed with the Commission since the close of the Registrant's fiscal year ended June 27, 2004, and within 120 days after the close of said fiscal year, are incorporated herein by reference.

Item 11. ***Executive Compensation***

The information called for by this item is set forth in the Proxy Statement under the headings "Executive Officers and their Compensation", "Director's Compensation", "Employment and Termination Agreements", "Compensation Committee InterLocks and Insider Participation in Compensation Decisions", "Insider Transactions", "Report of the Compensation Committee on Executive Compensation" and "Performance Graph — Shareholder Return on Common Stock", and is incorporated herein by reference.

For additional information regarding executive compensation reference is made to Exhibits (10k), (10l), (10m), (10n), (10q), (10r), (10s), (10t), (10u), (10v), (10x) and (10y) of this Form 10-K.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The following table summarizes information as of June 27, 2004 regarding the number of shares of common stock that may be issued under the Company's equity compensation plans:

Plan Category	(a) Number of Shares to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by shareholders	4,068,002	$12.47	2,874,286
Equity compensation plans not approved by shareholders	—	—	—
Total	4,068,002	$12.47	2,874,286

Under the terms of the 1999 Long-term Incentive Plan, the maximum number of shares to be issued was approved at 6,000,000. Of the 6,000,000 shares approved for issuance, no more than 3,000,000 can be issued as restricted stock. To date, 259,066 shares have been issued as restricted stock and are deemed to be outstanding. Any options or restricted stock that is forfeited can be reissued under the terms of the plan. The amount forfeited is included in the number of securities remaining available for future issuance in column (c) in the above table.

The information called for by this item with respect to security ownership of certain beneficial owners and management is set forth in the Proxy Statement under the headings "Information Relating to Principal Security Holders" and "Beneficial Ownership of Common Stock By Directors and Executive Officers", and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions***

The information called for by this item is set forth in the Proxy Statement under the headings “Compensation Committee InterLocks and Insider Participation in Compensation Decisions” and “Insider Transactions”, and is incorporated herein by reference.

Item 14. ***Principal Accounting Fees and Services***

The information called for by this item is set forth in the Proxy Statement under the heading “Audit Committee Report”, and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1. *Financial Statements*

The following financial statements and report of independent auditors are filed as a part of this Report.

	Pages
Report of Independent Registered Public Accounting Firm	25
Consolidated Balance Sheets at June 27, 2004 and June 29, 2003	26
Consolidated Statements of Operations for the Years Ended June 27, 2004, June 29, 2003, and June 30, 2002	27
Consolidated Statements of Changes in Shareholders’ Equity and Comprehensive Income (Loss) for the Years Ended June 27, 2004, June 29, 2003, and June 30, 2002	28
Consolidated Statements of Cash Flows for the Years Ended June 27, 2004, June 29, 2003, and June 30, 2002	29
Notes to Consolidated Financial Statements	30
2. *Financial Statement Schedules*	
II — Valuation and Qualifying Accounts	60
Parkdale America, LLC Financial Statements as of January 3, 2004 and for the year then ended	61

Schedules other than those above are omitted because they are not required, are not applicable, or the required information is given in the consolidated financial statements or notes thereto.

Individual financial statements of the Registrant have been omitted because it is primarily an operating company and all subsidiaries included in the consolidated financial statements being filed, in the aggregate, do not have minority equity interest and/or indebtedness to any person other than the Registrant or its consolidated subsidiaries in amounts which together exceed 5% of the total assets as shown by the most recent year end consolidated balance sheet.

With the exception of the information herein expressly incorporated by reference, the 2004 Proxy Statement is not deemed filed as a part of this Annual Report on Form 10-K.

3. *Exhibits*

Exhibit No.	Description
(2a)	Contribution Agreement, dated June 30, 1997, by and between Parkdale Mills, Inc., Unifi, Inc., UNIFI Manufacturing, Inc., and Parkdale America, LLC, filed as Exhibit (2) to Unifi’s Form 8-K filed with the Commission on July 15, 1997, which is incorporated herein by reference.
(3a)	Restated Certificate of Incorporation of Unifi, Inc., as amended, filed herewith.
(3b)	Restated by-laws of Unifi, Inc., effective October 22, 2003, filed herewith.

Exhibit No.	Description
(4a)	Specimen Certificate of Unifi, Inc.'s common stock, filed as Exhibit 4(a) to the Registration Statement on Form S-1, (Registration No. 2-45405), which is incorporated herein by reference.
(4b)	Unifi, Inc.'s Registration Statement for the 6 1/2% Notes due 2008, Series B, filed on Form S-4 (Registration No. 333-49243), which is incorporated herein by reference.
(4c)	Description of Unifi, Inc.'s common stock, filed on November 5, 1998, as Item 5. (Other Events) on Form 8-K, which is incorporated herein by reference.
(10a)	*Unifi, Inc. 1992 Incentive Stock Option Plan, effective July 16, 1992, filed as Exhibit 10(c) with the Company's Form 10-K for the fiscal year ended June 27, 1993, and included as Exhibit 99.2 to the Registration Statement on Form S-8 (Registration No. 33-53799), which are incorporated herein by reference.
(10b)	Intentionally omitted.
(10c)	*Unifi, Inc.'s 1996 Incentive Stock Option Plan, filed as Exhibit (10f) with the Company's Form 10-K for the fiscal year ended June 30, 1996, which is incorporated herein by reference.
(10d)	*Unifi, Inc.'s 1996 Non-Qualified Stock Option Plan, filed as Exhibit (10g) with the Company's Form 10-K for the fiscal year ended June 30, 1996, which is incorporated herein by reference.
(10e)	Credit Agreement dated as of December 7, 2001, by and among the Financial Institutions Named Therein as the Lenders, and Bank of America, N.A. as the Agent, and Unifi, Inc. and certain of its Domestic Subsidiaries as the Borrows (the "Credit Agreement"), filed as Exhibit (10e) with the Company's Form 10-K for the fiscal year ended June 30, 2002, which is incorporated herein by reference.
(10f)	Security Agreement dated as of December 7, 2001, between Unifi, Inc. and certain of its Domestic Subsidiaries and Bank of America, N.A., in its capacity as Agent for Lenders under the Credit Agreement, filed as Exhibit (10f) with the Company's Form 10-K for the fiscal year ended June 30, 2002, which is incorporated herein by reference.
(10g)	Letter Agreement amending the Credit Agreement dated June 12, 2002 between Unifi, Inc. and Bank of America, N.A. as Agent, filed herewith.
(10h)	Reallocation Amendment and Assignment dated as of January 1, 2003, between Unifi, Inc. and certain of its Domestic Subsidiaries, the Existing Lenders, the Remaining Lenders and Bank of America, N.A., as Agent for the Lenders, filed as Exhibit (10g) with the Company's Form 10-K for the fiscal year ended June 29, 2003, which is incorporated herein by reference. .
(10i)	Second Amendment dated as of August 6, 2003, between Unifi, Inc. and certain of its Domestic Subsidiaries, the Lenders, and Bank of America, N.A., as Agent for the Lenders, filed as Exhibit (10h) with the Company's Form 10-K for the fiscal year ended June 29, 2003, which is incorporated herein by reference.
(10j)	Third Amendment dated December 2003, between Unifi, Inc. and certain of its Domestic Subsidiaries, the Lenders, and Bank of America, N.A., as Agent for the Lenders, filed herewith.
(10k)	*Employment Agreement between Unifi, Inc. and Brian R. Parke, dated January 23, 2002, filed as Exhibit (10g) with the Company's Form 10-K for the fiscal year ended June 30, 2002, which is incorporated herein by reference.
(10l)	*Change of Control Agreement between Unifi, Inc. and Willis C. Moore, III, dated January 23, 2002, expiring November 1, 2005, filed as Exhibit (10i) with the Company's Form 10-K for the fiscal year ended June 30, 2002, which is incorporated herein by reference (similar agreements were signed by Thomas H. Caudle, Jr., Michael E. Delaney, O. Lee Gordon, Benny L. Holder, Stewart Q. Little, and Charles F. McCoy).
(10m)	*Change of Control Agreement between Unifi, Inc. and William M. Lowe, dated January 6, 2004, expiring November 1, 2005, filed as Exhibit 10 with the Company's Form 10-Q for the fiscal quarter ended March 28, 2004, which is incorporated herein by reference.
(10n)	*Employment Offer Letter from Unifi, Inc. to William M. Lowe dated January 6, 2004, filed herewith.
(10o)	*1999 Unifi, Inc. Long-Term Incentive Plan, (filed as Exhibit 99.1 to the Registration Statement on Form S-8, (Registration No. 333-43158), which is incorporated herein by reference.

Exhibit No.	Description
(10p)	Master Agreement POY Manufacturing Alliance between Unifi, Inc. and E.I. du Pont de Nemours and Company, dated June 1, 2000, filed as Exhibit (10o) with the Company's Form 10-K for the fiscal year ended June 25, 2000, which is incorporated herein by reference.
(10q)	*Employment Offer Letter from Unifi, Inc. to Michael E. Delaney dated December 8, 1999, filed as Exhibit (10o) with the Company's Form 10-K for the fiscal year ended June 29, 2003, which is incorporated herein by reference.
(10r)	*Severance Agreement effective April 30, 2003, by and between Unifi, Inc. and G. Alfred Webster, filed as Exhibit (10p) with the Company's Form 10-K for the fiscal year ended June 29, 2003, which is incorporated herein by reference.
(10s)	*Severance Agreement effective April 30, 2003, by and between Unifi, Inc. and Stewart Q. Little, filed as Exhibit (10q) with the Company's Form 10-K for the fiscal year ended June 29, 2003, which is incorporated herein by reference.
(10t)	*Severance Termination Agreement effective February 29, 2004, by and between Unifi, Inc. and Stewart Q. Little, filed herewith.
(10u)	*Severance Agreement effective April 30, 2003, by and between Unifi, Inc. and Ottis "Lee" Gordon, filed as Exhibit (10r) with the Company's Form 10-K for the fiscal year ended June 29, 2003, which is incorporated herein by reference.
(10v)	*Severance Agreement effective April 30, 2004, by and between Unifi, Inc. and Michael E. Delaney, filed herewith.
(10w)	*Agreement, effective February 1, 1999, by and between Unifi, Inc. and Jerry W. Eller, filed as Exhibit (10s) with the Company's Form 10-K for the fiscal year ended June 27, 1999, which is incorporated herein by reference.
(10x)	*Severance Agreement effective October 31, 2003, by and between Unifi, Inc. and Willis C. Moore, III, filed as Exhibit 10 with the Company's Form 10-Q for the quarter ended December 28, 2003, which is incorporated herein by reference.
(10y)	*Change of Control Agreement between Unifi, Inc. and G. Alfred Webster, dated October 26, 2000, expiring November 1, 2005, filed as Exhibit (10l) with the Company's Form 10-K for the fiscal year ended June 24, 2001, which is incorporated herein by reference.
(10z)	Chip Supply Agreement dated June 19, 2003, by and between Unifi Manufacturing, Inc. and Nan Ya Plastics Corp., America, filed herewith in redacted form as confidential treatment has been requested pursuant to Rule 24b-2 for certain portions thereof.
(14a)	Unifi, Inc. Ethical Business Conduct Policy Statement as amended July 22, 2004, filed herewith.
(14b)	Unifi, Inc. Code of Business Conduct & Ethics adopted on July 22, 2004, filed herewith.
(21)	Subsidiaries of Unifi, Inc.
(23a)	Consent of Ernst & Young LLP.
(23b)	Consent of PricewaterhouseCoopers, LLP.
(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.

* NOTE: These Exhibits are management contracts or compensatory plans or arrangements required to be filed as an exhibit to this Form 10-K pursuant to Item 15(c) of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and 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.

September 17, 2004	By: /s/ BRIAN R. PARKE Brian R. Parke *Chairman of the Board, President and Chief Executive Officer*
September 17, 2004	By: /s/ WILLIAM M. LOWE, JR. William M. Lowe, Jr. *Vice President, Chief Operating Officer and Chief Financial Officer*

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ BRIAN R. PARKE Brian R. Parke	Chairman of the Board, President and Chief Executive Officer	September 17, 2004
/s/ G. ALFRED WEBSTER G. Alfred Webster	Director	September 17, 2004
/s/ WILLIAM J. ARMFIELD, IV William J. Armfield, IV	Director	September 17, 2004
/s/ R. WILEY BOURNE, JR. R. Wiley Bourne, Jr.	Director	September 17, 2004
/s/ CHARLES R. CARTER Charles R. Carter	Director	September 17, 2004
/s/ SUE W. COLE Sue W. Cole	Director	September 17, 2004
/s/ J.B. DAVIS J.B. Davis	Director	September 17, 2004
Kenneth G. Langone	Director	September 17, 2004
/s/ DONALD F. ORR Donald F. Orr	Director	September 17, 2004

(27) Schedule II — Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts — Describe(b)	Deductions — Describe(c)	Balance at End of Period
		(Amounts in thousands)			
Allowance for uncollectible accounts(a):					
Year ended June 27, 2004	$12,268	2,297	447	(4,291)	$10,721
Year ended June 29, 2003	10,652	4,023	(1,779)	(628)	12,268
Year ended June 30, 2002	9,889	12,123	(689)	(10,671)	10,652
Valuation allowance for deferred tax assets:					
Year ended June 27, 2004	$10,500	3,927	—	(1,290)	$13,137
Year ended June 29, 2003	7,800	2,700	—	—	10,500
Year ended June 30, 2002	7,800	—	—	—	7,800

Footnotes

(a) The allowance for doubtful accounts includes amounts estimated not to be collectible for product quality claims, specific customer credit issues and a general provision for bad debts.

(b) The allowance for doubtful accounts includes acquisition related adjustments and/or effects of currency translation from restating activity of our foreign affiliates from their respective local currencies to the U.S. dollar.

(c) The allowance for doubtful accounts includes accounts written off which were deemed not to be collectible and customer claims paid, net of certain recoveries.

Deductions from the valuation allowance for deferred tax assets include state tax credit write-offs due to the expiration of the credits.

Parkdale America, LLC

Financial Statements
January 3, 2004 and December 28, 2002

PARKDALE AMERICA, LLC

January 3, 2004 and December 28, 2002

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REPORT OF INDEPENDENT AUDITORS

To the Board of Members of

Parkdale America, LLC

In our opinion, the accompanying balance sheets and the related statements of operations, of member's equity and of cash flows present fairly, in all material respects, the financial position of Parkdale America, LLC (the "Company") at January 3, 2004 and December 28, 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 10 to the financial statements, the Company is currently under investigation by the U.S. Department of Justice for voluntarily disclosed activities that may have resulted in violations of US antitrust laws.

/s/ PRICEWATERHOUSECOOPERS LLP

Charlotte, North Carolina

March 3, 2004 except as to
Note 5 which is as of August 26, 2004

PARKDALE AMERICA, LLC

BALANCE SHEETS

January 3, 2004 and December 28, 2002

	2003	2002
ASSETS		
Current assets		
Cash and cash equivalents	$ 73,567,000	$ 99,973,000
Accounts receivable, less allowances of $3,740,000 and $4,399,000	61,529,000	50,176,000
Inventories	61,149,000	42,793,000
Prepaid expenses and other assets	1,039,000	1,460,000
Notes receivable	90,000	84,000
Due from affiliates, net	—	686,000
Total current assets	197,374,000	195,172,000
Property, plant and equipment, net	108,826,000	135,994,000
Assets held for sale	1,167,000	51,000
Investment in joint venture	8,755,000	8,148,000
Intangible assets, net	1,875,000	2,516,000
Derivative instruments, net	10,876,000	1,734,000
Notes receivable from joint venture	4,777,000	5,227,000
Deferred financing costs	511,000	918,000
	$334,161,000	$349,760,000
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Trade accounts payable	$ 13,748,000	$ 10,320,000
Accrued expenses	7,380,000	7,357,000
Due to affiliates, net	461,000	—
Current portion of capital lease obligations	1,640,000	1,426,000
Current portion of long-term debt	8,000,000	—
Total current liabilities	31,229,000	19,103,000
Capital lease obligations	16,952,000	18,592,000
Long-term debt	32,000,000	40,000,000
Deferred revenue	—	75,000
Total liabilities	80,181,000	77,770,000
Commitments and contingencies	—	—
Members' equity	253,980,000	271,990,000
	$334,161,000	$349,760,000

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

PARKDALE AMERICA, LLC

STATEMENTS OF OPERATIONS

Years Ended January 3, 2004 and December 28, 2002

	2003	2002
Net sales	$ 403,600,000	$ 423,515,000
Cost of goods sold (Note 9)	(380,722,000)	(377,061,000)
Gross margin	22,878,000	46,454,000
General and administrative expenses (Note 9)	(19,439,000)	(18,476,000)
Income from operations	3,439,000	27,978,000
Interest expense	(4,384,000)	(4,470,000)
Interest income	1,276,000	1,855,000
Gain on derivative instruments	11,251,000	4,824,000
Equity in income (losses) of joint venture	607,000	(882,000)
Other income, net (Note 9)	843,000	2,043,000
Net income	$ 13,032,000	$ 31,348,000

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

PARKDALE AMERICA, LLC

STATEMENTS OF MEMBERS' EQUITY

Years Ended January 3, 2004 and December 28, 2002

Balance, December 29, 2001	$253,912,000
Net income	31,348,000
Dividends paid	(27,527,000)
Transfer of interest in Summit	14,257,000
Balance, December 28, 2002	271,990,000
Net income	13,032,000
Dividends paid	(31,510,000)
Capital contribution for assets sold to Parkdale	468,000
Balance, January 3, 2004	$253,980,000

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

PARKDALE AMERICA, LLC

STATEMENTS OF CASH FLOWS

Years Ended January 3, 2004 and December 28, 2002

	2003	2002
Cash flows from operating activities		
Net income	$ 13,032,000	$ 31,348,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	29,671,000	35,884,000
(Gain) loss on disposals of property, plant and equipment	(38,000)	201,000
Gain on derivative instruments	(9,142,000)	(3,222,000)
Equity in (income) losses of joint venture	(607,000)	882,000
Losses on write-downs of inventories	5,107,000	62,000
Changes in operating assets and liabilities		
Accounts receivable, net	(11,353,000)	(4,249,000)
Notes receivable	(6,000)	712,000
Due to/from affiliates, net	1,557,000	1,092,000
Inventories	(23,463,000)	22,374,000
Prepaid expenses and other	421,000	(1,340,000)
Trade accounts payable	3,241,000	(857,000)
Accrued expenses	23,000	1,969,000
Deferred revenue	(75,000)	75,000
Net cash provided by operating activities	8,368,000	84,931,000
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,663,000)	(5,562,000)
Proceeds from disposals of property, plant and equipment	375,000	1,408,000
Proceeds from notes receivable from affiliates	450,000	—
Net cash used in investing activities	(1,838,000)	(4,154,000)
Cash flows from financing activities		
Dividends paid	(31,510,000)	(27,527,000)
Increase in deferred financing costs	—	(62,000)
Capital lease payments	(1,426,000)	(947,000)
Net cash used in financing activities	(32,936,000)	(28,536,000)
Increase (decrease) in cash and cash equivalents	(26,406,000)	52,241,000
Cash and cash equivalents, beginning of year	99,973,000	47,732,000
Cash and cash equivalents, end of year	$ 73,567,000	$ 99,973,000
Supplemental disclosure of cash flow information —		
Cash paid during the year for interest	$ 4,398,000	$ 4,530,000
Supplemental disclosure of noncash activities —		
Transfer of investment in Summit from Parkdale	$ —	$ 14,257,000
Capitalized items included in accounts payable	$ 187,000	$ —
Capital contribution for assets sold to Parent company	$ 468,000	$ —
Fixed asset transfers to affiliate, net	$ 59,000	$ —

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

PARKDALE AMERICA, LLC

NOTES TO FINANCIAL STATEMENTS

January 3, 2004 and December 28, 2002

1. Significant Accounting Policies

Organization

On June 30, 1997, Parkdale Mills, Inc. (Parkdale) and Unifi, Inc. (Unifi) entered into a Contribution Agreement (the Agreement) that set forth the terms and conditions by which the two companies contributed all of the assets of their spun cotton yarn operations utilizing open-end and air jet spinning technologies to create Parkdale America, LLC (the Company). In exchange for their respective contributions, Parkdale received a 66% ownership interest and Unifi received a 34% ownership interest in the Company.

Effective January 15, 2002, Parkdale transferred its ownership in Summit Yarn Joint Venture ("Summit") to the Company. Summit is a joint venture with Burlington Industries, Inc., whereby each company agreed to contribute certain assets and cash for the purpose of constructing, operating and managing a yarn manufacturing facility located in Mexico. The investment was transferred at Parkdale's historical basis of $14,257,000, which included notes receivable from Summit totalling $5,227,000.

Operations

The Company is a producer of cotton and synthetic yarns for sale to the textile and apparel industries primarily within North America. The Company has 15 manufacturing facilities primarily located in central and western North Carolina.

Fiscal Year

The Company's fiscal year ends the Saturday nearest to December 31. The Company's fiscal years ended January 3, 2004 and December 28, 2002, which contained 53 weeks and 52 weeks, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when goods are shipped and title is transferred to the customer.

Cash Equivalents

The Company considers all highly-liquid investments with a maturity of three months or less to be cash equivalents. The Company maintains cash deposits with major banks which may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes risk of loss to be remote.

Concentration of Credit Risk

Substantially all of the Company's accounts receivable are due from companies in the textile and apparel markets located primarily throughout North America. In addition, the Company maintains factoring arrangements with a financial institution (see Note 2). The Company generally does not require collateral for its accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Bad debt write-offs totalled $1,703,000 and $2,125,000, net of recoveries of $190,000 and $81,000, for the years ended January 3, 2004 and December 28, 2002, respectively. Sales to two customers accounted for approximately 20% and 19% of total sales in 2003 and 2002, respectively, under a long-term contract with the Company. As of January 3, 2004, accounts receivable for two customers comprises 24% of total gross accounts receivable outstanding.

Property, Plant and Equipment

Assets contributed from Parkdale were transferred to the Company at Parkdale's historical net book value. Assets contributed from Unifi were recorded at fair value which Company management has represented approximated net book value at June 30, 1997. All subsequent additions to property, plant and equipment are recorded at cost. Provisions for repairs and maintenance, which do not extend the life of the applicable assets, are expensed. Provisions for depreciation are determined principally by an accelerated method over the estimated useful lives of the assets. The following is a summary:

	Useful Lives	2003	2002
Land and land improvements	15 years	$ 4,630,000	$ 4,630,000
Buildings	15-39 years	105,033,000	104,806,000
Machinery and equipment	5-9 years	458,887,000	474,743,000
Office furniture and fixtures	5-7 years	8,160,000	8,230,000
Construction-in-progress		666,000	465,000
		577,376,000	592,874,000
Less accumulated depreciation		(468,550,000)	(456,880,000)
Property, plant and equipment, net		$ 108,826,000	$ 135,994,000

Depreciation expense for years ended January 3, 2004 and December 28, 2002 was $28,623,000 and $34,884,000, respectively.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets to determine impairment based on estimated future undiscounted cash flows attributable to the assets. In the event such cash flows are not expected to be sufficient to recover the carrying value of the assets, the assets are written down to their estimated fair values.

Cotton Rebate Program

The Company receives a rebate from the U.S. Government for consuming cotton grown in the United States. The rebate is based on the pounds of cotton consumed and the difference between U.S. and foreign cotton prices. Rebate income, included as a reduction to cost of goods sold in the accompanying statements of income amounted to $17,654,000 and $6,872,000 for the years ended January 3, 2004 and December 28, 2002, respectively. The receivable associated with this rebate amounted to $241,000 and $1,344,000 as of January 3, 2004 and December 28, 2002, respectively, and was included in accounts receivable in the accompanying balance sheets.

Deferred Financing Costs

Deferred financing costs relate to debt agreements entered into on October 31, 2001 (see Note 5). Financing costs consist primarily of commitment fees, legal fees and other direct costs incurred to obtain debt financing. These costs are amortized over the applicable terms of the debt agreements.

Intangible Assets

The Company reviews intangible assets for impairment annually, unless specific circumstances indicate that a more timely review is warranted. Intangible assets subject to amortization consisted primarily of customer lists acquired and are being amortized over the terms of the agreements, principally five years.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued FIN No. 46, "Consolidation of Variable Interest Entities — an interpretation of ARB No. 51." FIN No. 46 provides criteria for determining whether the financial statement issuer must consolidate other entities in its financial statements. The provisions of FIN No. 46 are effective for entities created before December 31, 2003 and for financial statements for fiscal years beginning after December 15, 2004. For entities created after December 31, 2003, the provisions of FIN No. 46 will be effective as of the date they first become involved with the certain entity. The Company does not expect a material impact on its financial position, results of operations, or cash flows upon the adoption of FIN No. 46.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which is effective for contracts entered into or modified after September 30, 2003 and for hedging relationships designated after September 30, 2003. SFAS No. 149 amends and clarifies the financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The adoption of this statement did not have a material effect on the Company's financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

2. Factoring Arrangements

The Company has entered into factoring arrangements whereby certain of its receivables are sold on a preapproved, nonrecourse basis except in the event of dispute or claim as to price, terms, quality, material workmanship, quantity or delivery of merchandise. Pursuant to the terms of the arrangements, receivables are sold, net of factoring fees and commissions and net of any credits or discounts available to the Company's customers. Approximately 9% and 12% of accounts receivable were factored at January 3, 2004 and December 28, 2002, respectively. The Company had no advances from the factors outstanding at January 3, 2004 and December 28, 2002.

3. Inventories

Inventories are stated at lower of cost or market. Cost is determined using the specific identification method for raw material inventories and the moving-average method for yarn-in-process and finished yarn inventories. The Company performs periodic assessments to determine the existence of obsolete, slow-moving and nonsalable inventories and records necessary provisions to reduce such inventories to net realizable value. Inventories consist of the following as of January 3, 2004 and December 28, 2002:

	2003	2002
Cotton and synthetics	$41,582,000	$24,260,000
Yarn-in-process	5,015,000	3,650,000
Finished yarn	13,749,000	13,806,000
Supplies	803,000	1,077,000
Total inventories	$61,149,000	$42,793,000

Inventory at January 3, 2004 has been reduced by a reserve of $5,100,000 related to a reduction in the value of cotton on hand.

4. Income Taxes

The Company is a Limited Liability Company treated as a partnership for federal and state income tax reporting purposes. As a result, the Company's results of operations are included in the income tax returns of its individual members. Accordingly, no provision for federal or state income taxes has been recorded in the accompanying financial statements.

5. Debt

On October 31, 2001, the Company authorized the issue and sale of $40,000,000 Senior Secured Notes (the Notes) due October 31, 2008, at a fixed interest rate of 6.82% to four insurance and finance companies. Interest payments are due on a semi-annual basis, beginning April 30, 2002. Beginning October 31, 2004, the Company is required to pay principal amounts of $8,000,000 annually until the maturity date for the Notes. The Note Purchase Agreement contains certain penalties for prepayment of the Notes. The carrying value of the Notes approximates their fair value as of January 3, 2004.

The future maturities of the Notes are as follows:

2004	$ 8,000,000
2005	8,000,000
2006	8,000,000
2007	8,000,000
2008	8,000,000
	40,000,000
Less: current portion	(8,000,000)
Long-term portion	$32,000,000

Lines of Credit

In connection with the issuance of the Notes on October 31, 2001, the Company entered into an agreement for a line of credit with a group of banks, which provides for borrowings up to $90,000,000. Borrowings under this agreement bear interest at either the prime rate plus an applicable margin or a

LIBOR rate plus an applicable margin, as chosen by the Company. The termination date of this agreement is October 31, 2004 at which time the Company plans to renew the agreement. At January 3, 2004 and December 28, 2002, there were no amounts outstanding under this agreement. Subsequent to January 3, 2004, the line of credit was amended to reduce the line to $50,000,000 and to change the termination date to December 31, 2004.

Loan Covenants

The Company's debt agreements contain restrictive covenants which, among other things, require the maintenance of minimum levels of cash flow coverage and net worth, restrict payments of dividends and limit unsecured borrowings. For the year ended January 3, 2004, the Company was not in compliance with certain debt covenants related to the $90,000,000 line of credit which had no amounts outstanding at January 3, 2004. The Company expects to obtain a waiver from the lenders, and the Company expects to meet the covenants at future determination dates.

6. Derivative Instruments

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by Statements 137, 138, and 149 in June 1999, June 2000, and April 2003, respectively. SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the income statement, to the extent effective, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. During fiscal 2001, the Company adopted SFAS No. 133. The Company uses interest rate swap agreements to manage the risk that changes in interest rates will affect the amount of future interest payments. The differential paid or received under these agreements is recognized as an adjustment to interest expense. These agreements are required to be recognized at their fair value in the accompanying balance sheet.

As of January 3, 2004 and December 28, 2002, the Company was a party to the following interest rate swap agreements with a bank:

Notional amount	$30,000,000	$40,000,000
Payment rate	5% fixed	one-month LIBOR
Receipt rate	one-month LIBOR	4.24%
Inception date	3/7/01	11/21/01
Expiration date	3/12/04	10/12/08
Estimated fair value as of December 28, 2002	$(1,339,000)	$1,722,000
Estimated fair value as of January 3, 2004	(293,000)	939,000

The estimated fair values of the agreements are the estimated amounts that the Company would pay or receive to terminate these agreements at the reporting date, taking into account current interest rates. The estimated fair values do not necessarily reflect the potential income or loss that would be realized on an actual settlement of the agreements. The Company did not apply hedge accounting treatment and has recorded the unrealized gains and losses in the statements of income.

In addition, the Company enters into forward contracts for cotton purchases, which qualify as derivative instruments under SFAS No. 133. However, these contracts meet the applicable criteria to qualify for the "normal purchases or normal sales" exemption. Therefore, the provisions of SFAS No. 133 are not applicable to these contracts.

The Company enters into futures contracts for cotton purchases, which qualify as derivative instruments under SFAS No. 133. These contracts are used to economically hedge against rising cotton prices. The Company does not apply hedge accounting for these contracts and records these instruments at their fair value of $10,230,000 and $1,350,000 in the accompanying balance sheets as of January 3, 2004 and December 28, 2002, respectively. At January 3, 2004 and December 28, 2002, all realized and unrealized gains and losses, resulting from these derivatives, are reflected in the accompanying statements of income as a component of gain (loss) on derivative instruments. Subsequent to January 3, 2004, the fair value of the Company's cotton futures declined substantially due to falling cotton prices.

7. Investment in Summit Yarn Joint Venture

On June 4, 1998, Parkdale and Burlington Industries, Inc. (Burlington) entered into a Joint Venture and Contribution Agreement (the Agreement) whereby Parkdale and Burlington agreed to contribute certain assets and cash for the purpose of constructing, operating and managing a yarn manufacturing facility, (the Joint Venture), which qualifies under the "Maquiladora" program in accordance with applicable Mexican law, and for the marketing and sale of yarn manufactured by the Joint Venture, Summit Yarn, LLC (Summit). Additionally, Parkdale directly paid for certain training and travel costs incurred by Summit. The Agreement expires in 2018 and has stated renewal options. In exchange for their respective contributions, Parkdale and Burlington each received a 50% ownership interest in Summit. Effective January 15, 2002, Parkdale transferred its ownership in Summit to the Company. The Company accounts for its investment in Summit based on the equity method of accounting.

Concurrent with the formation of Summit, Parkdale and Burlington formed Summit Yarn Holding I, which served as the holding company for Parkdale's and Burlington's investment in various Mexican corporations, related to the Joint Venture. Parkdale and Burlington each received a 50% ownership interest in Summit Yarn Holding I. Effective January 15, 2002, Parkdale transferred its ownership in Summit Yarn Holding I to the Company. The Company accounts for its investment in Summit Yarn Holding I based on the equity method of accounting.

8. Defined Contribution Plan

The Company maintains a defined contribution retirement plan available to substantially all employees. The Company's contributions are based on a formula for matching employee contributions. The Company recognized expense for this plan of $486,000 and $572,000 during the years ended January 3, 2004 and December 28, 2002, respectively.

9. Related Party Transactions

Cotton Purchases and Commitments

During fiscal 2003 and 2002, the Company sold cotton at cost to Parkdale amounting to $1,204,000 and $4,558,000, respectively. During fiscal 2003 and 2002, Parkdale sold cotton at cost to the Company amounting to $1,908,000 and $10,156,000, respectively.

During fiscal 2002, the Company sold cotton at cost to Magnolia Manufacturing Company (Magnolia), a related company owned by certain of Parkdale's stockholders, amounting to $5,363,000. Effective December 29, 2002, Magnolia Manufacturing Company merged with Parkdale; therefore, there were no cotton sales to this entity during fiscal 2003.

The cost of cotton transferred between the Company, Parkdale and Magnolia is determined on a specific identification basis for each cotton bale sold or purchased.

The Company purchased cotton through a related entity of which Parkdale owns 50% totalling $65,051,000 and $45,157,000 for the year ended January 3, 2004 and December 28, 2002, respectively.

As is industry practice, the Company had unfulfilled yarn sales contracts at varying prices at January 3, 2004 and December 28, 2002. The Company also had unfulfilled cotton purchase commitments at January 3, 2004 for approximately 279,000,000 pounds of cotton to be used in the production process at varying prices.

Shared Expenses Allocation

The Company and Parkdale share certain accounting and administrative expenses. Parkdale and Unifi have agreed to allocate these accounting and administrative expenses based upon a weighted average of certain key indicators, including, but not limited to, pounds of yarn sold and net sales. The total net cost of these expenses charged to the Company amounted to approximately $16,759,000 and $15,077,000 for the years ended January 3, 2004 and December 28, 2002, respectively.

Due from to Affiliates

Due from (to) affiliates consists of the following as of January 3, 2004 and December 28, 2002:

	2003	2002
Due to Magnolia	$ —	$(201,000)
Due from Summit	579,000	264,000
Due from (to) Parkdale	(1,097,000)	645,000
Due from (to) Alliance Real Estate III	57,000	(22,000)
	$ (461,000)	$ 686,000

The due to/from amounts result from intercompany charges related to inventory purchases, accounts receivable collections and the administrative expense allocation.

Notes Receivable from Joint Venture

In connection with the transfer of Parkdale's interest in Summit to the Company, the Company assumed notes receivable from Summit in the amount of $3,550,000, which bears interest at 5.5% and $1,677,000, which bears interest at 5.7%. At January 3, 2004, there was $3,325,000 and $1,452,000 outstanding on the notes receivable.

The maturity date of the notes is December 1, 2005. Interest income earned on balances due from Summit amounted to $283,000 and $297,000 for the year ended January 3, 2003 and December 28, 2002, respectively.

Air Jet Acquisition

In September 1998, the Company purchased certain assets of the air jet operations of a related party. The total intangible assets associated with the Air Jet Acquisition was $4,275,000 and total accumulated amortization amounted to $2,400,000 at January 3, 2004. Amortization expense for the years ended January 3, 2004 and December 28, 2002 was $641,000 and $594,000, respectively.

Fixed Asset Transfers and Sales

During the years ended January 3, 2004 and December 28, 2002, Parkdale transferred, at net book value, fixed assets of $67,000 and $17,000, respectively to the Company, which was settled by cash payment during the year. During the years ended January 3, 2004 and December 28, 2002, the Company also transferred, at net book value, fixed assets of $8,000 and $45,000, respectively to Parkdale. No gain or loss was recognized on these transfers.

During the year ended January 3, 2004, the Company sold, at fair value, fixed assets of $524,000 to Parkdale, which will be settled for cash. As this transaction occurred between entities under common control, the difference between net book value and fair value was considered a capital contribution for assets sold to Parent of $468,000.

Other

During the year ended December 28, 2002, Parkdale reimbursed the Company for certain expenses incurred relating to Summit. The income was recorded in other income (expense) in the consolidated statements of income totalling $2,036,000. During 2003, there were no such reimbursements relating to Summit.

The Company sells waste fibers to Henry Fibers, a company owned by a stockholder of Parkdale. Total sales amounted to $215,000 and $461,000 for the years ended January 3, 2004 and December 28, 2002, respectively.

10. Commitments and Contingencies

Capital Leases

The Company maintains a lease agreement with a bank. The lease term ends in January 2013, with an option to purchase the assets in 2006 for 69.55% of the aggregate acquisition cost.

Future minimum lease payments under this financing at January 3, 2004 are as follows:

2004	$ 2,884,000
2005	2,884,000
2006	2,884,000
2007	2,884,000
2008	2,884,000
Thereafter	10,568,000
Total minimum lease payments	24,988,000
Less — amounts representing interest	6,396,000
Present value of net minimum lease payments	18,592,000
Less — current portion	1,640,000
	$16,952,000

Lease interest expense for the years ended January 3, 2004 and December 28, 2002 was $1,296,000 and $1,386,000, respectively. The net book value of the assets covered under this capital lease amounted to $14,507,000 and $16,119,000 as of January 3, 2004 and December 28, 2002, respectively. The fair value of the Company’s capital lease obligations approximates carrying value because the interest rate for the obligations is comparable to the Company’s estimated long-term borrowing rate.

Operating Leases

The Company has entered into operating leases for various vehicles and office equipment. At January 3, 2004, future minimum lease payments during the remaining noncancelable lease terms are as follows:

2004	$ 586,000
2005	468,000
2006	274,000
2007	157,000
2008	102,000
	$1,587,000

Rent expense for the years ended January 3, 2004 and December 28, 2002 was $569,000 and $586,000, respectively.

Contingencies

The Company is currently under investigation by the Department of Justice ("DOJ") for voluntarily self-disclosed activities that may have resulted in violations of US antitrust laws. The Company is acting in full cooperation with the DOJ. Because of the early stage of this investigation, the Company presently is unable to determine the ultimate cost that will be incurred in connection with this contingency. While the ultimate impact of this matter cannot be determined, the Company believes the damages incurred, if any, will not materially impact the Company's ability to fund its operations and satisfy its obligations.

The Company is also involved in various legal actions and claims arising in the normal course of business. Management believes that the resolution of such matters will not have a material effect on the financial condition or the results of operations of the Company.

Other

During the year ended January 3, 2004, the Company recorded settlement gains on certain litigation. The income of $742,000 was recorded in other income (expense) in the consolidated statements of income.

EXHIBIT (3a)

RESTATED CERTIFICATE OF INCORPORATION

OF

UNIFI, INC.

UNDER SECTION 807 OF THE BUSINESS CORPORATION LAW

THE UNDERSIGNED, Robert A. Ward and Clifford Frazier, Jr., being respectively the Executive Vice President and Secretary of Unifi, Inc., pursuant to Section 807 of the Business Corporation Law of the State of New York, hereby restate, certify, and set forth:

(1) The name of the Corporation is Unifi, Inc.. The name under which the Corporation was formed is Automated Environmental Systems, Inc.

(2) A Certificate of Incorporation of Unifi, Inc. was filed by the Department of State on the 18th day of January, 1969, under the name Automated Environmental Systems, Inc. A Restated Certificate of Incorporation was filed by the Department of State on the 6th day of November, 1990, a Certificate of Amendment was filed by the Department of State on the 13th day of November, 1991, and a Certificate of Amendment was filed by the Department of State on the 20th day of January, 1994.

(3) The text of the Certificate of Incorporation is hereby restated without amendment or change to read as herein set forth in full:

"FIRST: The name of the Corporation shall be Unifi, Inc.

SECOND: The purposes for which the Corporation is formed are to texture, prepare, buy, sell, deal in, trade, import, export, and generally deal in synthetic and natural yarns of every type and description.

To dye and finish, knit, buy, sell, acquire, import, export, manufacture, prepare and generally deal in as dyers and finishers, knitters, manufacturers, converters, jobbers, purchasers, or as agents in all types and forms of knitted fabrics including, without limitation, polyesters, acetates, nylon, cotton, wool, rayon, silk, and otherwise with yarn and fabric of every kind and description; and to generally deal in and with any and all things made wholly or in part of composition, imitation, or substitutes of any raw or finished products thereof.

To create, manufacture, contract for, buy, sell, import, export, distribute, job, and generally deal in and with, whether at wholesale or retail, and as principal, agent, broker, factor, commission merchant, licensor, licensee or otherwise, any and all kinds of goods, wares, and merchandise, and, in connection therewith or independent thereof, to construct, establish, and maintain, by any manner or means, factories, mills, buying offices, distribution centers, specialty, and other shops, stores, mail order establishments, concessions, leased departments, and any and all other departments, sites, and locations necessary, convenient or useful in the furtherance of any business of the corporation.

To export from and import into the United States of America and its territories and possessions, and any and all foreign countries, as principal or agent, merchandise of every kind and nature, and to purchase, sell, and deal in and with, at wholesale and retail, merchandise of every kind and nature for exportation from, and importation into the United States, and to and from all countries foreign thereto, and for exportation from, and importation into, any foreign country, to and from any other country foreign thereto, and to purchase and sell domestic and foreign merchandise in domestic markets, and domestic and foreign merchandise in foreign markets and to do a general foreign and domestic exporting and importing business.

To take, lease, purchase, or otherwise acquire, and to own, use, hold, sell, convey, exchange, lease, mortgage, clear, develop, redevelop, manage, operate, maintain, control, license the use of, publicize, advertise, promote, and generally deal in and with, whether as principal, agent, broker, or otherwise, real and personal property of all kinds, and, without limiting the generality of the foregoing, stores, shops, markets, supermarkets, departments, and merchandising facilities, shopping centers, recreational centers, discount centers, merchandising outlets of all kinds, parking areas, offices and establishments of all kinds, and to engage in the purchase, sale, lease and rental of equipment and fixtures for the same and for other enterprises, for itself or on behalf of others.

To carry on a general mercantile, industrial, investing, and trading business in all its branches; to devise, invent, manufacture, fabricate, assemble, install, service, maintain, alter, buy, sell, import, export, license as licensor or licensee, lease as lessor or lessee, distribute, job, enter into, negotiate, execute, acquire, and assign contracts in respect of, acquire, receive, grant, and assign licensing arrangements, options, franchises, and other rights in respect of, and generally deal in and with, at wholesale or retail, as principal, and as sales, business, special or general agent, representative, broker, factor, merchant, distributor, jobber, advisor, or in any other lawful capacity, goods, wares, merchandise, commodities, and unimproved, improved, finished, processed, and other real, personal and mixed property of any kind and all kinds, together with the components, resultants, and by-products thereof; to acquire by purchase or otherwise own, hold, lease, mortgage, sell, or otherwise dispose of, erect, construct, make, alter, enlarge, improve, and to aid or subscribe toward the construction, acquisition, or improvement of any factories, shops, storehouses, buildings, and commercial and retail establishments of every character, including all equipment, fixtures, machinery, implements, and supplies necessary, or incidental to, or connected with, any of the purposes or business of the corporation; and generally to perform any and all acts connected therewith or arising therefrom or incidental thereto, and all acts proper or necessary for the purpose of the business.

THIRD: The office of the Corporation is to be located in the City, County and State of New York.

FOURTH: The aggregate number of shares of capital stock which the Corporation shall have the authority to issue is five hundred million shares, all of which are to consist of one class of common stock only of the par value of $.10 each.

FIFTH: The Secretary of State is designated as the agent of the Corporation, upon whom process against it may be served, and the post office address to which the Secretary of State shall mail a copy of any process against the Corporation served upon him is:

c/o KREINDLER & RELKIN, P.C.
Attn: Donald L. Kreindler, Esquire
Empire State Building
350 Fifth Avenue, 65th Floor
New York, New York 10118.

SIXTH: No holder of any shares of any class of the Corporation shall as such holder have any pre-emptive right or be entitled as a matter of right to subscribe for or to purchase any other shares or securities of any class which at any time may be sold or offered for sale by the Corporation.

SEVENTH: The number of Directors shall be fixed in the By-Laws but in no case shall be less than nine (9), but this number may be increased and subsequently increased or decreased from time to time by the affirmative vote of the majority of the Board, except that the number of Directors shall not be less than nine (9). The Directors shall be divided into three classes designated as Class 1, Class 2 and Class 3. Each class shall be as nearly equal in number as possible and no class shall include less than three (3) Directors. The term of office of the Directors initially classified shall be as follows: Class 1 shall expire at the next (1992) Annual Meeting of the Shareholders, Class 2 at the second succeeding (1993) Annual Meeting of the Shareholders and Class 3 shall expire at the third succeeding (1994) Annual Meeting of the Shareholders. At each Annual Meeting after such initial Classification, Directors to replace those whose terms expire at such Annual Meeting shall be elected to hold office until the third succeeding Annual Meeting of the Shareholders. A Director shall hold office until the Annual Meeting of the year in which his term expires and until his successor shall be elected and qualified, subject to prior death, resignation, retirement, or removal from office.

If the number of Directors is changed pursuant to the By-Laws of the Corporation after the effective date of this ARTICLE SEVENTH, any newly created Directorships or any decrease in Directorships shall be apportioned among the classes so as to make all classes as nearly equal in number as possible. Newly created Directorships resulting from an increase in the number of Directors and vacancies caused by death, resignation, retirement, or removal from office, may be filled by the majority of the Directors present at the meeting, if a quorum is present. If the number of Directors then in office is less than a quorum, such newly created Directorships and vacancies may be filled by the affirmative vote of a majority of the Directors in office. When the number of Directors is increased by the Board, and the newly created Directorships are filled by the Board, there shall be no classification of the additional Directors until the next Annual Meeting of the Shareholders. Any Director elected by the Board to fill a vacancy shall serve until the next meeting of the Shareholders, at which the election of the Directors is in the regular order of business, and until his successor is elected and qualified. In no case will a decrease in the number of Directors shorten the term of an incumbent Director.

EIGHTH: A Director of the Corporation shall not be liable to the Corporation or its Shareholders for monetary damages for breach of duty as a Director, except to the extent such exemption from liability or limitation thereof is not permitted under the New York Business Corporation Law as the same exists or may hereafter be amended.

Any repeal or modification of the foregoing paragraph by the Shareholders of the Corporation shall not adversely affect any right or protection of a Director of the Corporation existing at the time of such repeal or modification."

(4) The restatement of the Certificate of Incorporation was authorized by resolution duly adopted by the Board of Directors of the Corporation at its Regular Meeting on July 21, 1994.

IN WITNESS WHEREOF, this Certificate has been subscribed this the 7th day of September, 1994, by the undersigned, who affirmed that the statements made herein are true under penalties of perjury.

/s/ ROBERT A. WARD

Robert A. Ward
Executive Vice President of
Finance and Administration

/s/ CLIFFORD FRAZIER, JR.

Clifford Frazier, Jr.
Secretary

CERTIFICATE OF AMENDMENT

OF THE CERTIFICATE OF INCORPORATION OF

UNIFI, INC.

UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

The undersigned, Vice President and Secretary of Unifi, Inc., hereby certifies:

1. The name of the corporation is UNIFI, INC. (the corporation was originally named Automated Environmental Systems, Inc.).

2. A Certificate of Incorporation of Unifi, Inc. was filed by the Department of State on the 18th day of January, 1969 under the name Automated Environmental Systems, Inc. A Restated Certificate of Incorporation of Unifi, Inc. was filed by the Department of State on the 6th day of November, 1990, a Certificate of Amendment was filed by the Department of State on the 13th day of November, 1991, a Certificate of Amendment was filed by the Department of State on the 20th day of January, 1994, and a Restated Certificate of Incorporation of Unifi, Inc. was filed by the Department of State on the 9th day of September, 1994.

3. The Restated Certificate of Incorporation of this Corporation is hereby amended to declassify the Board of Directors of the Corporation, and in relation thereto ARTICLE SEVENTH of the Restated Certificate of Incorporation is hereby deleted in its entirety and a new ARTICLE SEVENTH is hereby inserted to henceforth read as follows:

> "SEVENTH: The number of Directors shall be fixed in the By-Laws but in no case shall be less than nine (9), but this number may be increased and subsequently increased or decreased from time to time by the affirmative vote of the majority of the Board, except that the number of Directors shall not be less than nine (9). A Director shall hold office until his successor shall be elected and qualified, subject to prior death, resignation, retirement, or removal from office.
>
> Newly created directorships resulting from an increase in the number of Directors and vacancies caused by death, resignation, retirement or removal from office, may be filled by the vote of a majority of the Directors remaining in office. Any Director elected by the Board to fill a vacancy shall serve until the next meeting of the Shareholders, at which the election of Directors is in the regular order of business, and until his successor is elected and qualified. In no case will a decrease in the number of Directors shorten the term of an incumbent Director."

4. The foregoing amendment to the Restated Certificate of Incorporation of this Corporation was authorized by the Board of Directors of the Corporation on the 4th day of July, 2002, and adopted by the affirmative vote of a majority of the shares of Unifi, Inc.'s common stock entitled to notice of and to vote at the Annual Meeting of the Shareholders held on October 23, 2002, a quorum having been present.

IN WITNESS WHEREOF, this Certificate has been subscribed this the 6th day of January, 2003, by the undersigned, who affirmed that the statements made herein are true under penalties of perjury.

UNIFI, INC.

/s/ CHARLES F. MCCOY

Charles F. McCoy
Vice President & Secretary

[CORPORATE SEAL]

CERTIFICATE OF AMENDMENT

OF THE CERTIFICATE OF INCORPORATION OF

UNIFI, INC.

UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

The undersigned, Vice President and Secretary of Unifi, Inc., hereby certifies:

1. The name of the corporation is UNIFI, INC. (the corporation was originally named Automated Environmental Systems, Inc.).

2. A Certificate of Incorporation of Unifi, Inc. was filed by the Department of State on the 18th day of January, 1969 under the name Automated Environmental Systems, Inc. An Amendment of Certificate of Incorporation of Unifi, Inc. was filed by the Department of State on the 6th day of November, 1990, a Certificate of Amendment was filed by the Department of State on the 13th day of November, 1991, a Certificate of Amendment was filed by the Department of State on the 20th day of January, 1994, a Restated Certificate of Incorporation of Unifi, Inc. was filed by the Department of State on the 9th day of September, 1994, and a Certificate of Amendment was filed by the Department of State on the 21st day of January, 2003.

3. The Certificate of Incorporation of this Corporation is hereby amended to decrease the required minimum number of directors on the Board of Directors of the Corporation from 9 to 7, and in relation thereto ARTICLE SEVENTH of the Certificate of Incorporation is hereby deleted in its entirety and a new ARTICLE SEVENTH is hereby inserted to henceforth read as follows:

> "SEVENTH: The number of Directors shall be fixed in the By-Laws but in no case shall be less than seven (7), but this number may be increased and subsequently increased or decreased from time to time by the affirmative vote of the majority of the Board, except that the number of Directors shall not be less than seven (7). A Director shall hold office until his successor shall be elected and qualified, subject to prior death, resignation, retirement, or removal from office.
>
> Newly created directorships resulting from an increase in the number of Directors and vacancies caused by death, resignation, retirement or removal from office, may be filled by the vote of a majority of the Directors remaining in office. Any Director elected by the Board to fill a vacancy shall serve until the next meeting of the Shareholders, at which the election of Directors is in the regular order of business, and until his successor is elected and qualified. In no case will a decrease in the number of Directors shorten the term of an incumbent Director."

4. The foregoing amendment to the Certificate of Incorporation of this Corporation was authorized by the Board of Directors of the Corporation on the 23rd day of July, 2003, and adopted by the affirmative vote of a majority of the shares of Unifi,

Inc.'s common stock entitled to notice of and to vote at the Annual Meeting of the Shareholders held on October 22, 2003, a quorum having been present.

IN WITNESS WHEREOF, this Certificate has been subscribed this the 13th day of January, 2004, by the undersigned, who affirmed that the statements made herein are true under penalties of perjury.

UNIFI, INC.

/S/ CHARLES F. McCOY

Charles F. McCoy
Vice President & Secretary

[CORPORATE SEAL]

EXHIBIT (3b)

RESTATED BY-LAWS

OF

UNIFI, INC.

(Effective October 22, 2003)

RESTATED BY-LAWS

OF

UNIFI, INC.

ARTICLE I

SHAREHOLDERS

SECTION 1.01. ANNUAL MEETING. The Annual Meeting of Shareholders for the election of Directors and the transaction of such other business as may come before it shall be held on such date in each calendar year, not later than the one hundred fiftieth (150) day after the close of the Corporation's preceding fiscal year, and at such place as shall be fixed by the President and stated in the notice or waiver of notice of the meeting.

SECTION 1.02. SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose of purposes, may be called at any time by any Director, the President, any Vice President, the Treasurer or the Secretary or by resolution of the Board of Directors. Special meetings of the shareholders shall be held at such place as shall be fixed by the person or persons calling the meeting and stated in the notice or waiver of notice of the meeting.

SECTION 1.03. NOTICE OF MEETINGS OF SHAREHOLDERS. Whenever shareholders are required or permitted to take any action at a meeting, written notice shall state the place, date and hour of the meeting and, unless it is the Annual Meeting, indicate that it is being issued by or at the direction of the person or persons calling the meeting. Notice of a special meeting shall also state the purpose or purposes for which the meeting is called. If, at any meeting, action is proposed to be taken which would, if taken, entitle shareholders fulfilling the requirements of Section 623 of the Business Corporation Law to receive payment for their shares, the notice of such meeting shall include a statement of that purpose to that effect. A copy of the notice of any meeting shall be given, personally or by mail, not less than ten nor more than fifty days before the date of the meeting, to each shareholder entitled to vote at such meeting. If mailed, such notice is given when deposited in the United States mail, with postage thereon prepaid, directed to the shareholder at his address as it appears on the record of shareholders, or, if he shall have filed with the Secretary of the Corporation a written request that notices to him be mailed to some other address, then directed to him at such other address.

When a meeting is adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken, and at the adjourned meeting any business may be transacted that might have been transacted on the original date of the meeting. However, if after the adjournment, the Board of Directors fixes a new record date for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record on the new record date entitled to notice under the next preceding paragraph.

SECTION 1.04. WAIVERS OF NOTICE. Notice of meeting need not be given to any shareholder who submits a signed Waiver of Notice, in person or by proxy, whether before or after the meeting. The attendance of any shareholder at a meeting, in person or by proxy, without protesting prior to the conclusion of the meeting the lack of notice of such meeting, shall constitute a Waiver of Notice by him.

SECTION 1.05. QUORUM. The holders of a majority of the shares entitled to vote thereat shall constitute a quorum at a meeting of shareholders for the transaction of any business, provided that when a specified item of business is required to be voted on by a class or series, voting as a class, the holders of a majority of the shares of such class or series shall constitute a quorum for the transaction of such specified item of business.

When a quorum is once present to organize a meeting, it is not broken by the subsequent withdrawal of any shareholders.

The shareholders present may adjourn the meeting despite the absence of a quorum and at any such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally noticed.

SECTION 1.06. FIXING RECORD DATE. For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to or dissent from any proposal without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividend or the allotment of any rights, or for the purpose of any other action, the Board of Directors may fix, in advance, a date as the record date for any such determination of shareholders. Such date shall not be more than fifty or less than ten days before the date of such meeting, nor more than fifty days prior to any other action.

When a determination of shareholders of record entitled to notice of or to vote at any meeting or shareholders has been made as provided in this Section, such determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date under this Section for the adjourned meeting.

SECTION 1.07. LIST OF SHAREHOLDERS AT MEETING. A list of shareholders as of the record date, certified by the corporate officer responsible for its preparation or by a transfer agent, shall be produced at any meeting of shareholders upon the request thereat or prior thereto of any shareholder. If the right to vote at any meeting is challenged, the inspectors of election, or person presiding thereat, shall require such list of shareholders to be produced as evidence of the right of the persons challenged to vote at such meeting, and all persons who appear from such list to be shareholders entitled to vote thereat may vote at such meeting.

SECTION 1.08. PROXIES. Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent without a meeting may authorize another person or persons to act for him by proxy.

Every proxy must be signed by the shareholder or his attorney-in-fact. No proxy shall be valid after the expiration of eleven months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the shareholder executing it, except as otherwise provided in this Section.

The authority of the holder of a proxy to act shall not be revoked by the incompetence or death of the shareholder who executed the proxy unless, before the authority is exercised, written notice of an adjudication of such incompetence or of such death is received by the Corporate Officer responsible for maintaining the list of shareholders.

Except when other provision shall have been made by written agreement between the parties, the record holder of shares which are held by a pledgee as security or which belong to another, upon demand therefor and payment of necessary expenses thereof, shall issue to the pledgor or to such owner of such shares a proxy to vote or take other action thereon.

A shareholder shall not sell his vote or issue a proxy to vote to any person for any sum of money or anything of value, except as authorized in this Section and Section 620 of the Business Corporation Law.

A proxy which is entitled "irrevocable proxy" and which states that it is irrevocable, is irrevocable when it is held by any of the following or a nominee of any of the following:

(1) A Pledgee;

(2) A person who has purchased or agreed to purchase the shares;

(3) A creditor or creditors of the Corporation who extend or continue credit to the Corporation in consideration of

the proxy if the proxy states that it was given in consideration of such extension or continuation of credit, the amount thereof, and the name of the person extending or continuing credit;

(4) A person who has contracted to perform services as an Officer of the Corporation, if a proxy is required by the contract of employment, if the proxy states that it was given in consideration of such contract of employment, the name of the employee and the period of employment contracted for;

(5) A person designated by or under an agreement under paragraph (a) of said Section 620.

Notwithstanding a provision in a proxy, stating that it is irrevocable, the proxy becomes revocable after the pledge is redeemed, or the debt of the Corporation is paid, or the period of employment provided for in the contract of employment has terminated, or the agreement under paragraph (a) of said Section 620 has terminated, and becomes revocable, in a case provided for in subparagraph (3) or (4) above, at the end of the period, if any, specified therein as the period during which it is irrevocable, or three years after the date of the proxy, whichever period is less, unless the period of irrevocability is renewed from time to time by the execution of a new irrevocable proxy as provided in this Section. This paragraph does not affect the duration of a proxy under the second paragraph of this Section.

A proxy may be revoked, notwithstanding a provision making it irrevocable, by a purchaser of shares without knowledge of the existence of the provision unless the existence of the proxy and its irrevocability is noted conspicuously on the face or back of the certificate representing such shares.

SECTION 1.09. SELECTION AND DUTIES OF INSPECTORS. The Board of Directors, in advance of any shareholders' meeting, may appoint one or more inspectors to act at the meeting or any adjournment thereof. If inspectors are not so appointed, the person presiding at a shareholders' meeting may, and on the request of any shareholder entitled to vote thereat shall, appoint one or more inspectors. In case any person appointed failed to appear or act, the vacancy may be filled by appointment made by the Board in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability.

The inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the person presiding at the meeting or any shareholder entitled to vote thereat, the inspectors shall make a report in writing of any challenge, question or matter determined by them and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated and of the vote as certified by them.

Unless appointed by the Board of Directors or requested by a shareholder, as above provided in this Section, inspectors shall be dispensed with at all meetings of shareholders.

The vote upon any question before any shareholders' meeting need not be by ballot.

SECTION 1.10. QUALIFICATION OF VOTERS. Every shareholder of record shall be entitled at every meeting of shareholders to one vote for every share standing in his name on the record of shareholders, except as expressly provided otherwise in this Section and except as otherwise expressly provided in the Certificate of Incorporation of the Corporation.

Treasury shares and shares held by another domestic or foreign corporation of any type or kind, if a majority of the shares entitled to vote in the election of Directors of such other corporation is held by the Corporation, shall not be shares entitled to vote or to be counted in determining the total number of outstanding shares.

Shares held by an administrator, executor, guardian, conservator, committee, or other fiduciary, except a Trustee, may be voted by him, either in person or by proxy, without transfer of such shares into his name. Shares held by a Trustee may be voted by him, either in person or by proxy, only after the shares have been transferred into his name as Trustee or into the name of his nominee.

Shares held by or under the control of a receiver may be voted by him without the transfer thereof into his name if authority so to do is contained in an order of the court by which such receiver was appointed.

A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, or a nominee of the pledgee.

Redeemable shares which have been called for redemption shall not be deemed to be outstanding shares for the purpose of voting or determining the total number of shares entitled to vote on any matter on and after the date on which written notice of redemption has been sent to holders thereof and a sum sufficient to redeem such shares has been deposited with a bank or trust company with irrevocable instruction and authority to pay the redemption price to the holders of the shares upon surrender of certificates therefor.

Shares standing in the name of another domestic or foreign corporation of any type or kind may be voted by such Officer, agent or proxy as the By-Laws of such corporation may provide, or, in the absence of such provision, as the Board of Directors of such corporation may determine.

When shares are registered on the record of shareholders of the Corporation in the name of, or have passed by operation of law or by virtue of any deed of trust or other instrument to two or more fiduciaries, and if the fiduciaries shall be equally divided as to voting such shares, any court having jurisdiction of their accounts, upon petition by any of such fiduciaries or by any party in interest, may direct the voting of such shares for the best interest of the beneficiaries. This paragraph shall not apply in any case where the instrument or order of the court appointing such fiduciaries shall otherwise direct how such shares shall be voted.

Notwithstanding the foregoing paragraphs of this Section, the Corporation shall be protected in treating the persons whose names shares stand on the record of shareholders as the owners thereof for all purposes.

SECTION 1.11. VOTE OF SHAREHOLDERS. Directors shall be elected by a plurality of the votes cast at a meeting of shareholders by the holders of shares entitled to vote in the election. Whenever any corporate action, other than the election of Directors, is to be taken by vote of the shareholders, it shall, except as otherwise required by the Business Corporation Law or by the Certificate of Incorporation of the Corporation, be authorized by a majority of the votes cast at a meeting of shareholders by the holders of shares entitled to vote thereon.

SECTION 1.12. WRITTEN CONSENT OF SHAREHOLDERS. Whenever under the Business Corporation Law shareholders are required or permitted to take any action by vote, such action may be taken without a meeting on written consent, setting forth the action so taken, signed by the holders of all outstanding shares entitled to vote thereon. This paragraph shall not be construed to alter or modify the provisions of any section of the Business Corporation Law or any provision in the Certificate of Incorporation of the Corporation not inconsistent with the Business Corporation Law under which the written consent of the holders of less than all outstanding shares is sufficient for corporate action.

Written consent thus given by the holders of all outstanding shares entitled to vote shall have the same effect as a unanimous vote of shareholders.

ARTICLE II

DIRECTORS

SECTION 2.01. MANAGEMENT OF BUSINESS; QUALIFICATIONS OF DIRECTORS. The business of the Corporation shall be managed by its Board of Directors, each of whom shall be at least twenty-one years of age.

Directors need not be Stockholders.

The Board of Directors, in addition to the powers and authority expressly conferred upon it herein, by statute, by the Certificate of Incorporation of the Corporation and otherwise, is hereby empowered to exercise all such powers as may be exercised by the Corporation, except as expressly provided otherwise by the statutes of the State of New York, by the Certificate of Incorporation of the Corporation and these By-Laws.

SECTION 2.02. NUMBER OF DIRECTORS. The number of Directors which shall constitute the entire Board shall be nine (9), but this number may be increased and subsequently again increased or decreased from time to time by the affirmative vote of the majority of Directors, except that the number of Directors shall not be less than seven (7).

SECTION 2.03. ELECTION OF DIRECTORS. At each Annual Meeting of the Shareholders, Directors shall be elected to hold office until the next Annual Meeting of the Shareholders, subject to prior death, resignation, retirement, or removal from office and until his or her successor shall be elected and qualified.

SECTION 2.04. NEWLY CREATED DIRECTORSHIP AND VACANCIES. Newly created Directorships resulting from an increase in the number of Directors and vacancies caused by death, resignation, retirement, or removal from office, subject to Section 2.05(b), may be filled by the majority of the Directors voting on the particular matter, if a quorum is present. If the number of Directors then in office is less than a quorum, such newly created Directorships and vacancies may be filled by the affirmative vote of a majority of the Directors in office. Any Director elected by the Board to fill a vacancy shall serve until the next meeting of the shareholders, at which the election of the Directors is in the regular order of business, and until his or her successor is elected and qualified.

In no case will a decrease in the number of Directors shorten the term of an incumbent Director.

SECTION 2.05(a). RESIGNATIONS. Any Director of the Corporation may resign at any time by giving written notice to the Board of Directors, the President or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, if any, or if no time is specified therein, then upon receipt of such notice by the addressee; and, unless otherwise provided therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 2.05(b). REMOVAL OF DIRECTORS. Any or all of the Directors may be removed at any time (i) for cause by vote of the shareholders or by action on the Board of Directors or (ii) without cause by vote of the shareholders, except as expressly provided otherwise by Section 706 of the Business Corporation Law. The Board of Directors shall fill vacancies occurring in the Board by reason of removal of Directors for cause. Vacancies occurring by reason of removal without cause shall be filled by the Shareholders.

SECTION 2.06. QUORUM OF DIRECTORS. At all meetings of the Board of Directors, a majority of the number of Directors then office shall be necessary and sufficient to constitute a quorum for the transaction of business and the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as expressly provided otherwise by the statutes of the State of New York and except as provided in the third sentence of Section 2.04, in Section 2.11 and Section 7.09 hereof.

A majority of the Directors present, whether or not a quorum is present, may adjourn any meeting of the Directors to another time and place. Notice of any adjournment need not be given if such time and place are announced at the meeting.

SECTION 2.07. ANNUAL MEETING. The Board of Directors shall meet immediately following the adjournment of the Annual Meeting of shareholders in each year at the same place and no notice of such meeting shall be necessary.

SECTION 2.08. REGULAR MEETINGS. Regular meetings of the Board of Directors may be held at such time and place as shall from time to time be fixed by the Board and no notice thereof shall be necessary.

SECTION 2.09. SPECIAL MEETINGS. Special meetings may be called at any time by any Director, the President, any Vice President, the Treasurer, or the Secretary or by resolution of the Board of Directors. Special meetings shall be held at such place as shall be fixed by the person or persons calling the meeting and stated in the notice or waiver of notice of the meeting.

SECTION 2.10. COMPENSATION. Directors shall receive such fixed sums and expenses of attendance for attendance at each meeting of the Board or of any committee and/or such salary as may be determined from time to time by the Board of Directors; provided that nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 2.11. COMMITTEES. The Board of Directors, by resolution adopted by a majority of the entire Board, may designate from among its members an Executive Committee and other committees, each consisting of three or more Directors, and each of which, to the extent provided in the resolution, shall have the authority of the Board of Directors, except that no such committee shall have authority as to the following matters:

(a) The submission to shareholders of any action that needs shareholder's authorization under the Business Corporation Law.

(b) The filling of vacancies in the Board of Directors or in any committee.

(c) The fixing of compensation of the Directors for serving on the Board of Directors or on any committee.

(d) The amendment or repeal of the By-Laws, or the adoption of new By-Laws.

(e) The amendment or repeal of any resolution of the Board of Directors which by its terms shall not be so amendable or repealable.

The Board may designate one or more Directors as alternate members of any such committee, who may replace any absent member or members at any meeting of such committee. Each such committee shall serve at the pleasure of the Board of Directors.

Regular meetings of any such committee shall be held at such time and place as shall from time to time be fixed by such committee and no notice thereof shall be necessary. Special meetings may be called at any time by any Officer of the Corporation or any member of such committee. Notice of each special meeting of each such committee shall be given (or waived) in the same manner as notice of a special meeting of the Board of Directors. A majority of the members of any such committee shall constitute a quorum for the transaction of business and the act of a majority of the members present at the time of the vote, if a quorum is present at such time, shall be the act of the committee.

SECTION 2.12. INTERESTED DIRECTORS. No contract or other transaction between the Corporation and one or more of its Directors, or between the Corporation and any other corporation, firm, association or other entity in which one or more of the Corporation's Directors are Directors or Officers, or are financially interested, shall be either void or voidable for this reason alone or by reason alone that such Director or Directors are present at the meeting of the Board of Directors, or of a committee thereof, which approves such contract or transaction, or that his or their votes are counted for such purpose:

(1) If the fact of such common Directorship, Officership or financial interest is disclosed or known to the Board or committee, and the Board or committee approves such contract or transaction by a vote sufficient for such purpose without counting the vote or votes of such interested Director or Directors;

(2) If such common Directorship, Officership or financial interest is disclosed or known to the shareholders entitled to vote thereon, and such contract or transaction is approved by vote of the shareholders; or

(3) If the contract or transaction is fair and reasonable as to the Corporation at the time it is approved by the Board, a committee of the shareholders.

Common or interested Directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which approves such contract or transaction.

SECTION 2.13. LOANS TO DIRECTORS. A loan shall not be made by the Corporation to any Director unless it is authorized by vote of the shareholders. For this purpose, the shares of the Director who would be the borrower shall not be shares entitled to vote. A loan made in violation of this Section shall be a violation of the duty to the Corporation of the Directors approving it, but the obligation of the borrower with respect to the loan shall not be affected thereby.

SECTION 2.14. CONSENT TO ACTION. Any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board or committee consent in writing, whether done before or after the action so taken, to the adoption of a resolution authorizing the action. The resolution and the written consent thereto shall be filed with the Minutes of the proceeding of the Board or the committee.

ARTICLE III

OFFICERS

SECTION 3.01. ELECTION OR APPOINTMENT: NUMBER. The Chairman of the Board of Directors and Officers of the Corporation shall be elected or appointed by the Board of Directors. The Officers shall be a President, a Secretary, a Treasurer, and such number of Executive Vice Presidents, Vice Presidents, Assistant Secretaries and Assistant Treasurers, and such other Officers, as the Board may from time to time determine. Any person may hold two or more offices at the same time, except the offices of President and Secretary. An Officer may, but no Officer need, be chosen from among the Board of Directors.

SECTION 3.02. TERM. Subject to the provisions of Section 3.03 hereof, all officers shall be elected or appointed to hold office until the meeting of the Board of Directors following the next Annual Meeting of shareholders, and each officer shall hold office for the term for which he is elected or appointed and until his successor has been elected or appointed and qualified. The Board may require any Officer to give security for the faithful performance of his duties.

SECTION 3.03. REMOVAL. Any Officer elected or appointed by the Board of Directors may be removed by the Board with or without cause.

The removal of an Officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an Officer shall not of itself create contract rights.

SECTION 3.04. AUTHORITY. Any Director or such other person as may be designated by the Board of Directors, and in the absence of such Director or other person, the President shall be the Chief Executive Officer ("CEO") of the Corporation. The CEO shall oversee the general operations of the Corporation and set company policy that would be implemented, interpreted and carried out by the President of the Corporation who will report directly to the CEO. The Chairman of the Board shall preside at all meetings of the Board of Directors unless some other person is designated by the Board.

SECTION 3.05. VOTING SECURITIES OWNED BY THE CORPORATION. Powers of attorney, proxies, waivers or notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the President or any Vice-President and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any Corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

ARTICLE IV

CAPITAL STOCK

SECTION 4.01. STOCK CERTIFICATES. The shares of the Corporation shall be represented by certificates signed by the Chairman of the Board or the President or a Vice-President and the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer of the Corporation, and may be sealed with the seal of the Corporation or a facsimile thereof. The signatures of the Officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation itself or its employee. In case any Officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such Officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such Officer at the date of issue.

Each certificate representing shares shall also set fort such additional material as is required by subdivisions (b) and (c) of Section 508 of the Business Corporation Law.

SECTION 4.02. TRANSFERS. Stock of the Corporation shall be transferable in the manner prescribed by the laws of the State of New York and in these By-Laws Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before the new certificate shall be issued.

SECTION 4.03. REGISTERED HOLDERS. The Corporation shall be entitled to treat and shall be protected in treating the persons in whose names shares or any warrants, rights or options stand on the record of shareholders, warrant holders, right holders or option holders, as the case may be, as the owners thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, any such share, warrant, right or option on the part of any other person, whether or not the Corporation shall have notice thereof, except as expressly provided otherwise by the Statutes of the State of New York.

SECTION 4.04. NEW CERTIFICATES. The Corporation may issue a new certificate of stock in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Directors may, in their discretion, require the owner of the lost, stolen or destroyed certificate, or his legal representatives, to give the Corporation a bond sufficient (in the judgment of the Directors) to indemnify the Corporation against any claim that may be made against it on account of the alleged loss or theft of any such certificate or the issuance of such new certificate. A new certificate may be issued without requiring any bond when, in the judgment of the Directors, it is proper so to do.

ARTICLE V

FINANCIAL NOTICES TO SHAREHOLDERS

SECTION 5.01. DIVIDENDS. When any dividend is paid or any other distribution is made, in whole or in part, from sources other than earned surplus, it shall be accompanied by a written notice (1) disclosing the amounts by which such dividend or distribution affects stated capital, capital surplus and earned surplus, or (2) if such amounts are not determinable at the time of such notice, disclosing the approximate effect of such dividend or distribution upon stated capital, capital surplus and earned surplus and stating that such amounts are not yet determinable.

SECTION 5.02. SHARE DISTRIBUTION AND CHANGES. Every distribution to shareholders of certificates representing a share distribution or a change of shares which affects stated capital, capital surplus or earned surplus shall be accompanied by a written notice (1) disclosing the amounts by which such distribution or change affects stated capital, capital surplus or earned surplus, or (2) if such amounts are not determinable at the time of such notice, disclosing the approximate effect of such distribution or change upon stated capital, capital surplus and earned surplus and stating that such amounts are not yet determinable.

When issued shares are changed in any manner which affects stated capital, capital surplus or earned surplus, and no distribution to shareholders of certificates representing any shares resulting from such change is made, disclosure of the effect of such change upon the stated capital, capital surplus and earned surplus shall be made in the next financial statement covering the period in which such change is made that is furnished by the Corporation to holders of shares of the class or series so changed or, if practicable, in the first notice of dividend or share distribution or change that is furnished to such shareholders between the date of the change and shares and the next such financial statement, and in any event within six months of the date of such change.

SECTION 5.03. CANCELLATION OF REACQUIRED SHARES. When reacquired shares other than converted shares are canceled, the stated capital of the Corporation shall be reduced by the amount of stated capital then represented by such shares plus any stated capital not theretofore allocated to any designated class or series which is thereupon allocated to the shares canceled. The amount by which stated capital has been reduced by cancellation of required shares during a stated period of time shall be disclosed in the next financial statement covering such period that is furnished by the Corporation to all its shareholders or, if practicable, in the first notice of dividend or share distribution that is furnished to the holders of each class or series of its shares between the end of the period and the next such financial statement, and in any event to all its shareholders within six months of the date of the reduction of capital.

SECTION 5.04. REDUCTION OF STATED CAPITAL. When a reduction of stated capital has been effected under Section 516 of the Business Corporation Law, the amount of such reduction shall be disclosed in the next financial statement covering the period in which such reduction is made that is furnished by the Corporation to all its shareholders or, if practicable, in the first notice of dividend or share distribution that is furnished to the holders of each class or series of its shares between the date of such reduction and the next such financial statement, and in any event to all its shareholders within six months of the date of such reduction.

SECTION 5.05. APPLICATION OF CAPITAL SURPLUS TO ELIMINATION OF A DEFICIT. Whenever the Corporation shall apply any part or all of its capital surplus to the elimination of any deficit in the earned surplus account, such application shall be disclosed in the next financial statement covering the period in which such elimination is made that is furnished by the Corporation to all its shareholders or, if practicable, in the first notice of dividend or share distribution that is furnished to holders of each class or series of its shares between the date of such elimination and the next such financial statement, and in any event to all its shareholders within six months of the date of such action.

SECTION 5.06. CONVERSION OF SHARES. Should the Corporation issue any convertible shares, then, when shares have been converted, disclosure of the conversion of shares during a stated period of time and its effect, if any, upon stated capital shall be made in the next financial statement covering such period that is furnished by the Corporation to all its shareholders or, if practicable, in the first notice of dividend or share distribution that is furnished to the holders of each class or series of its shares between the end of such period and the next financial statement, and in any event to all its shareholders within six months of the date of the conversion of shares.

ARTICLE VI

INDEMNIFICATION

SECTION 6.01. RIGHT TO INDEMNIFICATION. The Corporation shall indemnify, defend and hold harmless any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or other, including appeals, by reason of the fact that he is or was a Director, Officer or employee of the Corporation, or is or was serving at the request of the Corporation as a Director, Officer or employee of any Corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a Director, Officer or employee or in any other capacity while serving as a Director, Officer or employee, to the fullest extent authorized by the New York Business Corporation Law, as the same exists or may hereafter be amended, against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith; provided, however, that except as provided in Section 6.02 hereof with respect to proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if the proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

The right to indemnification conferred in this Article shall be a contract right and shall include the right to be paid by the Corporation expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that if required by law at the time of such payment, the payment of such expenses incurred by a Director or Officer in his capacity as a Director or Officer (and not in any other capacity in which service was or is rendered by such person while a Director or Officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of such proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such Director or Officer, to repay all amounts so advanced if it should be determined ultimately that such Director or Officer is not entitled to be indemnified under this Section or otherwise.

"Employee" as used herein, includes both an active employee in the Corporation's service, as well as a retired employee who is or has been a party to a written agreement under which he might be, or might have been, obligated to render services to the Corporation.

SECTION 6.02. RIGHT OF CLAIMANT TO BRING SUIT. If a claim under Section 6.01 is not paid in full by the Corporation within sixty (60) days or, in cases of advances of expenses, twenty (20) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the New York Business Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the

Corporation (including its Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the New York Business Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its shareholders) that the claimant had not met such applicable standard of conduct shall be a defense to the action or create a presumption that claimant had not met the applicable standard of conduct. The Corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to this Article that the procedures and presumptions of this Article are not valid, binding and enforceable and shall stipulate in any such proceeding that the Corporation is bound by all provisions of this Article.

SECTION 6.03. NONEXCLUSIVENESS. The indemnification and advances of expenses granted pursuant to, or provided by, this Article shall not be deemed exclusive of any other rights to which a Director or Officer seeking indemnification or advancement or expenses may be entitled, whether contained in the Certificate of Incorporation or these By-Laws, and the Board of Directors is authorized, from time to time in its discretion, to enter into agreements with one or more Directors, Officers and other persons providing for the maximum indemnification allowed by applicable law.

The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article (a) shall apply to acts or omissions antedating the adoption of this By-Law, (b) shall be severable, (c) shall not be exclusive of other rights to which any Director, Officer or employee may now or hereafter become entitled apart from this Article, (d) shall continue as to a person who has ceased to be such Director, Officer or employee and (e) shall inure to the benefit of the heirs, Executors and Administrators of such a person.

SECTION 6.04. INSURANCE FOR INDEMNIFICATION OF DIRECTORS AND OFFICERS. The Corporation shall have the power to purchase and maintain insurance (a) to indemnify the Corporation for any obligations which it incurs as the result of the indemnification of Directors and Officers under the provisions of this Article; (b) to indemnify Directors and Officers in instances which they may be indemnified by the Corporation under the provisions of this Article; and (c) to indemnify Directors and Officers in instances in which they may not otherwise be indemnified by the Corporation under the provisions of this Article, provided the contract of insurance covering such Directors and Officers provides, in a manner acceptable to the Superintendent of Insurance of the State of New York, for a retention amount and for co-insurance.

No insurance under the preceding paragraph of this Section may provide for any payment, other than the cost of defense, to or on behalf of any Director of Officer: (i) if a judgment or other final adjudication adverse to the insured Director or Officer establishes that his acts of active and deliberate dishonesty were material to the cause of action so adjudicated or that he personally gained in fact a financial profit or other advantage to which he was not legally entitled, or (ii) in relation to any risk the insurance of which is prohibited under the insurance laws of the State of New York.

ARTICLE VII

MISCELLANEOUS

SECTION 7.01. OFFICES. The principal office of the Corporation shall be in the City of New York, County of New York, State of New York. The Corporation may also have offices at other places, within and/or without the State of New York.

SECTION 7.02. SEAL. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its incorporation and the words "Corporate Seal of New York".

SECTION 7.03. CHECKS. All checks or demands for money shall be signed by such person or persons as the Board of Directors may from time to time determine.

SECTION 7.04. FISCAL YEAR. The fiscal year of the Corporation shall begin on the 1st day of July in each year and shall end on the 30th day of June of the ensuing year and the first fiscal year shall end on June 30, 1969.

SECTION 7.05. BOOKS AND RECORDS. The Corporation shall keep correct and complete books and records of accounts and shall keep minutes of the proceedings of its shareholders, Board of Directors and Executive Committee, if any, and shall keep at the office of the Corporation in New York State or at the office of its transfer agent or registrar in New York State, a record containing the names and addresses of all shareholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof. Any of the foregoing books, minutes or records may be in written form or in any other form capable of being converted into written form within a reasonable time.

SECTION 7.6. DUTY OF DIRECTORS AND OFFICERS. Directors and Officers shall discharge the duties of their respective positions in good faith and with that degree of diligence, care and skill which ordinarily prudent men would exercise under similar circumstances in like positions. In discharging their duties, Directors and Officers, when acting in good faith, may rely upon financial statements of the Corporation represented to them to be correct by the President or the Officer of the Corporation having charge of its books of accounts, or stated in a written report by an independent public or certified public accountant or firm of such accountants fairly to reflect the financial condition of the Corporation.

SECTION 7.07. WHEN NOTICE OR LAPSE OF TIME UNNECESSARY; NOTICE DISPENSED WITH WHEN DELIVERY IS PROHIBITED. Whenever, under the Business Corporation Law or the Certificate of Incorporation or the By-Law of the Corporation or by the terms of any agreement or instrument, the Corporation or the Board of Directors or any committee thereof is authorized to take any action after notice to any person or persons or after the lapse of a prescribed period of time, such action may be taken without notice and without the lapse of such period of time, if at any time before or after such action is completed the person or persons entitled to such notice or entitled to participate in the action to be taken or, in the case of a shareholder, by his attorney-in-fact, submit a signed waiver of notice of such requirements.

Whenever any notice or communication is required to be given to any person by the Business Corporation Law, the Certificate of Incorporation of the Corporation or theses By-Laws, or by the terms of any agreement or instrument, or as a condition precedent to taking any corporate action and communication with such person is then unlawful under any statute of the State of New York or of the United States or any regulation, proclamation or order issued under said statutes, then the giving of such notice or communication to such person shall not be required and there shall be no duty to apply for license or other permission to do so. Any affidavit, certificate or other instrument which is required to be made or filed as proof of the giving of any notice or communication required the Business Corporation Law shall, if such notice or communication to any person is dispensed with under this paragraph, include a statement that such notice or communication was not given to any person with whom communication is unlawful. Such affidavit, certificate or other instrument shall be as effective for all purposes as though such notice or communication had been personally given to such person.

SECTION 7.08. ENTIRE BOARD. As used in these By-Laws, the term "Entire Board" means the total number of Directors which the Corporation would have if there were no vacancies.

SECTION 7.09. AMENDMENT OF BY-LAWS. These By-Laws may be amended or repealed and new By-Laws adopted by the Board of Directors or by vote of the holders of the shares at the time entitled to vote of the holders of the shares at the time entitled to vote in the election of any Directors, except that any amendment by the Board changing the number of Directors shall require the vote of a majority of the Entire Board and except that any By-Laws adopted by the Board may be amended or repealed by the shareholders entitled to vote thereon as provided in the Business Corporation Law.

If any By-Law regulating an impending election of Directors is adopted, amended or repealed by the Board, the shall be set forth in the notice of the next meeting of shareholders for the election of Directors the By-Law so adopted, amended or repealed, together with a concise statement of the changes made.

SECTION 7.10 NONAPPLICATION OF NORTH CAROLINA SHAREHOLDER PROTECTION ACT. The provisions of North Carolina General Statutes 55-75 through 55-79 shall not be applicable to this Corporation.

SECTION 7.11. SECTION HEADINGS. The Headings to the Articles and Sections of these By-Laws have been inserted for convenience of reference only and shall not be deemed to be a part of these By-Laws.

EXHIBIT (10g)

BANK OF AMERICA(R)

Bank of America
Commercial Finance
Business Credit
GA1-006-05-14
PO Box 3406
Atlanta, GA 30302-3406

Tel 404.607.5386

June 12, 2002

Willis C. Moore, III
Executive Vice President and CFO
Unifi, Inc.
7201 W. Friendly Avenue
Greensboro, NC 27410

RE: Credit Agreement Dated as of December 7, 2001 ("Loan Agreements") between Unifi, Inc. and Bank of America, N.A. as Agent.

Dear Mr. Moore:

Unifi, Inc. has requested a change in the frequency of the reporting requirements per The Loan Agreements as contained in Article 5 Section 5.2(1). This letter shall serve as our agreement that Section 5.2(1) shall be amended, and that the language below shall be added to Section 5.2(1). All capitalized terms used herein and not otherwise expressly defined herein shall have the respective meanings given to such terms in the Loan Agreements.

> "Provided, however, that if Availability is $35,000,000 or more at all times during the month then such Borrowing Base Certificates will be furnished only on a monthly basis as soon as available, but in any event by the 30th day of the following month concurrently therewith, or more frequently if requested by the Agent, a schedule of each Borrower's Accounts created, credits given, cash collected and other adjustments to Accounts made since the date of the last such schedule and the related Borrowing Base Certificate."

The parties hereto acknowledge and agree that all other terms and conditions of the Loan Agreements shall remain in full force and effect and continue to apply unless and until the Agent and Lenders otherwise consent in writing. This agreement shall not operate as a consent to any other action or inaction, or a waiver of any provision contained in the Loan Agreement except as specifically provided herein. This agreement may be executed in two or more counterparts, each of which shall be deemed an original, and all of which taken together shall be deemed to constitute one and the same instrument.

Please signify your acceptance of the changes as contained herein by signing below.

Bank of America, N.A., as Agent
By:

/S/ GAYE L. STATHIS

Gaye L. Stathis
Vice President

Unifi, Inc.
By:

/S/ WILLIS C. MOORE, III

Willis C. Moore, III
Executive Vice President and CFO

EXHIBIT (10j)

THIRD AMENDMENT

THIS THIRD AMENDMENT (this "Amendment"), dated as of December ___, 2003 is by and among UNIFI, INC., a New York corporation (the "Parent"), certain Subsidiaries of the Parent (each a "Borrower", and collectively with the Parent, the "Borrowers"), THE PERSONS IDENTIFIED AS THE LENDERS ON THE SIGNATURE PAGES HERETO (the "Lenders"), and BANK OF AMERICA, N.A., as Agent for the Lenders (the "Agent").

W I T N E S S E T H:

WHEREAS, pursuant to the Credit Agreement dated as of December 7, 2001, as amended by that certain Reallocation Amendment and Assignment dated as of January 1, 2003, that certain Second Amendment dated as of August 6, 2003 and as further amended from time to time (the "Existing Credit Agreement") among the Borrowers, the Lenders and the Agent, the Existing Lenders have extended commitments to make certain credit facilities available to the Borrowers;

WHEREAS, the parties hereto have agreed to amend the Existing Credit Agreement as set forth herein.

NOW, THEREFORE, in consideration of the agreements herein contained and other good and valuable consideration, the parties hereby agree as follows:

PART I

DEFINITIONS

SUBPART 1.1. Certain Definitions. Unless otherwise defined herein or the context otherwise requires, the following terms used in this Amendment, including its preamble and recitals, have the following meanings:

"Amended Credit Agreement" means the Existing Credit Agreement as amended hereby.

"Third Amendment Effective Date" shall have the meaning set forth in Subpart 4.1.

SUBPART 1.2. Other Definitions. Unless otherwise defined herein or the context otherwise requires, terms used in this Amendment, including its preamble and recitals, have the meanings provided in the Amended Credit Agreement.

PART II
AMENDMENTS TO EXISTING CREDIT AGREEMENT

SUBPART 2.1. Amendment to Section 7.12. Effective on (and subject to the occurrence of) the Third Amendment Effective Date, Section 7.12 of the Existing Credit Agreement is hereby amended by adding the following clause to the end of such Section, "...and Guaranties of another Borrower in favor of suppliers and/or vendors of Unimatrix Americas, LLC, in form and substance satisfactory to the Agent, incurred in the ordinary course of business in an aggregate amount not to exceed $10,000,000 at any one time outstanding."

SUBPART 2.2. Amendment to Section 7.13. Effective on (and subject to the occurrence of) the Third Amendment Effective Date, Section 7.13 of the Existing Credit Agreement is hereby amended by adding the following clause (i) to the end of the first sentence of such Section, "...and (i) Debt in the form of Guaranties permitted by Section 7.12 hereof."

PART III
CONDITIONS TO EFFECTIVENESS

SUBPART 3.1. Third Amendment Effective Date. This Amendment shall be and become effective as of the date hereof when all of the conditions set forth in this Part IV shall have been satisfied (the "Third Amendment Effective Date"), and thereafter this Amendment shall be known, and may be referred to, as "Third Amendment."

SUBPART 3.2. Execution of Counterparts of Amendment. The Agent shall have received counterparts of this Amendment, which collectively shall have been duly executed on behalf of each of the Borrowers, the Agent and the Majority Lenders.

SUBPART 3.3. Fees and Expenses. The Borrowers shall have paid all fees and expenses of the Agent and the Lenders in connection with this Amendment and the extensions of credit hereunder.

PART IV
MISCELLANEOUS

SUBPART 4.1. Cross-References. References in this Amendment to any Part or Subpart are, unless otherwise specified, to such Part or Subpart of this Amendment.

SUBPART 4.2. References in Other Credit Documents. At such time as this Amendment shall become effective pursuant to the terms of Subpart 3.1, all references in the Existing Credit Agreement to the "Credit Agreement" and all references in the other Loan Documents to the "Credit Agreement" shall be deemed to refer to the Amended Credit Agreement.

SUBPART 4.3. Representations and Warranties of the Borrower. Each Borrower hereby represents and warrants that (a) the conditions precedent to the initial Loans were satisfied as of the Closing Date, (b) the representations and warranties contained in Section 6 of the Existing Credit Agreement (as amended by this Amendment) are correct in all material respects on and as of the date hereof as though made on and as of such date and after giving effect to the amendments contained herein and (c) no Default or Event of Default exists under the Existing Credit Agreement on and as of the date hereof and after giving effect to the amendments contained herein.

SUBPART 4.4. Counterparts. This Amendment may be executed by the parties hereto in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement.

SUBPART 4.5. Governing Law. THIS AMENDMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NORTH CAROLINA WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

SUBPART 4.6. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

[The remainder of this page is intentionally left blank.]

Each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

BORROWERS: UNIFI, INC., a New York corporation

By: /S/ CHARLES F. MCCOY

Name: CHARLES F. MCCOY
Title: Vice President

UNIFI MANUFACTURING, INC.,
a North Carolina corporation

By: /S/ CHARLES F. MCCOY

Name: CHARLES F. MCCOY
Title: Vice President

GLENTOUCH YARN COMPANY, LLC,
a North Carolina limited liability company

By: /S/ CHARLES F. MCCOY

Name: CHARLES F. MCCOY
Title: Vice President

UNIFI TEXTURED POLYESTER, LLC,
a North Carolina limited liability company

By: /S/ CHARLES F. MCCOY

Name: CHARLES F. MCCOY
Title: Vice President

LENDERS: BANK OF AMERICA, N.A.,
in its capacity as Agent

By: /S/ ANDREW A. DOHERTY

Name: ANDREW A. DOHERTY
Title: Vice President

BANK OF AMERICA, N.A.,
in its capacity as a Lender,

By: /S/ ANDREW A. DOHERTY

Name: ANDREW A. DOHERTY
Title: Vice President

THE CIT GROUP/COMMERCIAL
SERVICES, INC.,

By: /S/ J W SMITH, II

Name: J W SMITH, II
Title: Vice President

CONGRESS FINANCIAL
CORPORATION (SOUTHWEST),

By: /S/ JOE T. CURDY

Name: JOE T. CURDY
Title: Vice President

FLEET CAPITAL CORPORATION,

By: /S/ A. N. CONE

Name: A. N. CONE
Title: Vice President

WELLS FARGO FOOTHILL, INC.
FORMALLY KNOWN AS FOOTHILL CAPITAL
CORPORATION

By: /S/ BRAD ENGEL

Name: BRAD ENGEL
Title: Assistant Vice President

PNC BUSINESS CREDIT,

By: /S/ PETER REDINGTON

Name: PETER REDINGTON
Title: Assistant Vice President

CITIZENS BUSINESS CREDIT, A DIVISION
OF CITIZENS LEASING CORPORATION,

By: /S/ LEIGH A. LOVES

Name: LEIGH A. LOVES
Title: Vice President

EXHIBIT (10n)

December 12, 2003

William M. Lowe, Jr.
1394 Westwood
Birmingham, MI 48009

Dear Bill:

I am pleased to extend an offer of employment to you as the Chief Financial Officer of Unifi, Inc., effective January 6, 2004, contingent upon the completion of successful referencing and a new employee substance abuse screening test. In your capacity as CFO, you will report to me and be accountable for all aspects of finance, treasury, corporate financial reporting, and compliance with SEC and NYSE requirements.

Specific duties include providing leadership and providing input regarding the strategic direction for the company. You will also be responsible for signing and the overall accuracy and completeness of all legal and financial documents filed with the SEC and NYSE. You will inform the CEO and Board of Directors of all key financial issues, as well as working with the CEO in planning and forecasting future actions. You will be expected to maintain investor relations, which includes speaking at conferences, responding to daily requests from shareholders and bondholders, quarterly conference calls and develop and retain new shareholders. You will be expected to maintain relationships with bankers, attorneys, accountants, factors, equity investments and partnerships, and other professional service organizations utilized by the company.

The details of your compensation and benefits package, provided you accept our offer, consist of the following:

1. Base Salary

   Your base annual salary, effective upon your commencement of employment with Unifi is $350,000 to be paid at regular intervals in accordance with the general practices of the company. A sign-on bonus of $75,000 will be paid on the first regular pay period.

2. Bonus Opportunity

   Unifi's Annual Incentive Plan for Salaried Employees is designed to provide an opportunity to earn incentive compensation based on corporate performance, business unit performance, and/or individual contributions against critical measures that drive the success of the business.

   Based on the bonus opportunity set forth by the company, the bonus potential would be up to 40% of your base salary. Half of your bonus potential is based on fiscal year financial targets of the company, specifically Earnings per Share (EPS) and Free Cash Flow (FCF). The other half of your bonus is based on the achievement and execution of goals pertaining to personal leadership and ability to create and drive change.

3. Stock Grant

A stock grant of 20,000 restricted shares of common stock will be awarded effective with your start date. These shares will vest over a five-year period beginning on the day of the grant. Twenty percent (20%) will be vested on the grant date. You should be aware that, as a member of executive management, you will be expected to build toward and maintain a position in Unifi stock equal to three-times the value of your base salary.

4. Options Award

A stock options award of 20,000 shares of common stock, which will vest over a period of five years, will be awarded effective with your start date.

5. Automobile Allowance

An automobile allowance of $1000 per month will be paid on the first day of each month. Additionally, Unifi will reimburse for actual auto expenses such as gas, oil, cleaning and normal repairs. Insurance costs and property taxes are not reimbursable.

6. Life Insurance

To be determined and discussed upon your arrival.

7. Company Benefits

You will participate in all company life, health, medical and dental plans as well as 401(k) plans when eligible under the specific plan guidelines.

a) The 401(k) plan provides a company match. The match is dollar for dollar up to 3%, and then $0.50 on the dollar between 3% and 5% with immediate vesting. You will have immediate eligibility to participate in the plan, and you may make changes to your deferral amounts at any time.

b) You will have access to Unifi's comprehensive medical and dental plan on the first day of the month following sixty (60) days of employment. Any COBRA-related expenses will be reimbursed by Unifi during the period between your hire date and the first date of coverage.

8. Relocation

Unifi will provide reimbursement for closing costs incurred during the sale of the current permanent residence (including associated realtor fees) as well as closing expenses incurred in the purchase of a new permanent residence. Company agrees to pay for expenses incurred in packing and moving household and personal goods. Company will pay reasonable temporary living expenses for a period of six months.

9. Miscellaneous

Unifi agrees to pay reasonable club dues. Unifi will grant four weeks of vacation upon hire.

10. Severance Understanding

In the unlikely event that some circumstance should occur beyond your control resulting in a separation of employment, Unifi will pay your base salary for a period of twelve months except in the case of disciplinary termination.

Bill, I believe that you will make a strong member of our executive team, and I look forward to welcoming you to Unifi. Please let me know if you have any questions as I look forward to hearing from you as soon as possible.

Sincerely,

BRIAN R. PARKE

Brian Parke
Chief Executive Officer
Unifi, Inc.

Accepted by:	WILLIAM M. LOWE, JR.	December 15, 2003
	--------------------	-----------------
	(Name)	(Date)

EXHIBIT (10t)

SERVERANCE TERMINATION AGREEMENT

THIS SERVERANCE TERMINATION AGREEMENT (this "Agreement") effective as of February 29, 2004 (the "Effective Date"), by and between UNIFI, INC., a New York corporation (hereinafter referred to as "Unifi" or the "Company"), and STEWART Q. LITTLE (hereinafter referred to as "Employee");

WITNESSETH:

WHEREAS, Unifi and Employee entered into that certain Severance Agreement effective April 30, 2003 (the "Severance Agreement"), the terms of which are incorporated herein by reference; and

WHEREAS, the Severance Agreement provides that the Company will pay Employee certain Monthly Payments through and including October 2004, and that Employee is entitled to certain other benefits from the Company during the term of the Severance Agreement; and

WHEREAS, Section 10 of the Severance Agreement prohibits Employee from seeking employment with Competitors of the Company until after April 30, 2005; and

WHEREAS, Employee has an employment opportunity with a Competitor of the Company, which position Employee desires to accept; and

WHEREAS, Employee has asked the Company to terminate his Severance Agreement and allow him to accept said position of employment with a Competitor of the Company and the Company is agreeable to terminate Employee's Severance Agreement; and

WHEREAS, the parties desire to terminate the Severance Agreement and release each other from their respective obligations under the Severance Agreement on the terms and conditions set forth below.

NOW, THEREFORE, for and in consideration of the covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. CAPITALIZED TERMS.

All capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Severance Agreement.

2. TERMINATION.

The Severance Agreement is hereby terminated effective February 29, 2004 ("Termination Date"). To and through the Termination Date, both parties shall duly perform and fully comply with all terms and conditions of the Severance Agreement. After the Effective Date Unifi shall not be required to pay or provide any of the benefits to Employee set forth in the Severance Agreement, including paying the Monthly Payments.

3. MUTUAL RELEASE.

This Agreement is intended to and the mutual release which follows shall fully and finally settle any and all demands, charges, claims, accounts, or causes of action of any nature including, without limitation, known or unknown claims and causes of action that arise out of or in connection with the Severance Agreement. The following release shall be effective as of the Termination Date without further action of the parties: the Company and Employee do hereby release and discharge each other from their respective obligations arising from or connected with the provisions of the Severance Agreement, excepting such rights and obligations as may be created or reserved by this Agreement and further excepting the obligations, if any, of the Company and Employee contained in the Severance Agreement to not disclose Confidential Information (Section 9) and to hold the other harmless against any and all claims (Section 12). The release of liability contained herein shall not preclude a party from exercising any discovery rights it may have against the other party in connection with any civil litigation or arbitration proceedings involving a third party.

4. REPRESENTATIONS AND WARRANTIES.

a. Each party represents and warrants to the other that it has not made any claim, demand, obligation, liability, or cause of action arising from the Severance Agreement.

b. Each party, and each and every individual person signing below on behalf of a party, represents and warrants that he or she is an officer, partner or duly authorized agent of the entity for which he or she is signing, and is duly authorized to enter into this Agreement.

5. MISCELLANEOUS.

a. The parties have read this Agreement and the release contained herein, and on the advice of counsel they have freely and voluntarily entered into this Agreement.

b. This Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their successors.

c. This Agreement shall be interpreted and construed under the laws of North Carolina.

d. This Agreement contains the entire agreement of the Parties and supersedes all prior agreements and understandings, oral or written, if any, relating to the subject matter hereof. 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.

e. 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.

f. 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.

g. 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
Stewart Q. Little
1833 B-8 Banking St
Greensboro, NC

and to:

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

IN WITNESS WHEREOF, Unifi and Employee have duly executed this Agreement as of the day and year first above written.

EMPLOYEE:

/S/ STEWART Q. LITTLE
------------------------------(Seal)
STEWART Q. LITTLE

UNIFI, INC.

BY: /S/ CHARLES F. MCCOY

CHARLES F. MCCOY
Vice President

EXHIBIT (10v)

SEVERANCE AGREEMENT

This SEVERANCE AGREEMENT ("Agreement") effective the 30th day of April, 2004 (the "Effective Date"), by and between UNIFI, INC., a New York corporation (hereinafter referred to as "UNIFI" or the "Company"), and MICHAEL E. DELANEY (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.

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 Three Hundred Forty-Nine Thousand Three Hundred Forty-Eight and 57/100 Dollars ($349,348.57) as severance due to termination of his employment with Unifi (the "Severance Payment"). The total Promissory Notes Balance of $53,805.03 as set forth in Section 8.A below plus an additional $45,543.54 in United States and North Carolina withholding taxes on the Promissory Notes Balance shall be deducted from the Severance Payment to get the resulting balance of severance due to EMPLOYEE of Two Hundred Fifty Thousand and 00/100 Dollars ($250,000.00) (the "Resulting Severance Payment"). The Resulting Severance Payment shall be paid to EMPLOYEE in twelve (12) equal monthly installments of Twenty Thousand Eight Hundred Thirty-Three Dollars and 33/100 ($20,833.33) beginning on the regular payroll date for salaried employees of UNIFI in May 2004 and continuing to and including April 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 April 30, 2005 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 April 30, 2005, or 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. Upon EMPLOYEE'S election on or before April 30, 2005, UNIFI agrees to provide EMPLOYEE with reasonable outplacement services provided by Right Management Associates for a period equal to the lesser of six (6) months or until such time as EMPLOYEE has obtained new employment.

B. EMPLOYEE is hereby transferred ownership of the laptop computer, P.D.A. and cellular telephone that he used in his employment with UNIFI at the Effective Date. Said laptop computer, P.D.A. and cellular telephone are transferred to EMPLOYEE on an "AS IS WHERE IS" basis and UNIFI makes no representations and warranties of any nature or kind concerning the same.

C. 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 January 1, 2000 5,000 shares of Unifi, Inc. restricted stock and was awarded on July 26, 2000 5,242 shares of Unifi, Inc. restricted stock, and executed a Restricted Stock Agreement in connection with each said award ("Restricted Agreements"). 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 Agreements to provide that the 1,000 unvested shares of restricted stock awarded to EMPLOYEE under his January 1, 2000 agreement 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 1999 Long Term Incentive Plan. Stock Option Agreements dated January 1, 2000 for 55,527 stock options, October 2, 2001 for 15,000 stock options, and January 23, 2002 for 100,000 stock options were entered into in relation to the respective outstanding stock options granted. 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 stock options under the aforesaid Stock Option Agreements shall be modified and amended to mean April 30, 2005, and EMPLOYEE shall have until that date to exercise all such previously vested 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 unvested options shall vest and shall be exercisable by EMPLOYEE until April 30, 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 two Promissory Notes to UNIFI, one dated January 1, 2000 in the principal amount of $27,351.56 and another dated December 31, 2000 in the principal amount of $25,653.04. The total amount due on said Promissory Notes of $53,805.03 (the "Promissory Note Balance") ($27,351.56 principal and $423.96 accrued interest on the January 1, 2000 Promissory Note and $25,653.04 principal and $376.47 accrued interest on the December 31, 2000 Promissory Note) shall be deducted from the Severance Payment as set forth in Section 1 hereof.

B. 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)/litigation(s) proceedings involving Unifi Technical Fabrics and Q & R Associates, Inc., 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. The Company agrees to reimburse EMPLOYEE for his reasonable out of pocket costs and expenses (including travel expenses, and lost wages or other compensation) incurred for his cooperation as set forth in this provision of the Agreement.

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 twelve (12) months 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 twelve (12) months 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.

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 SUFFICENT 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
MICHAEL E. DELANEY
1802 Tiffany Place
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:

/S/ MICHAEL E. DELANEY (Seal)

MICHAEL E. DELANEY

UNIFI, INC.

BY: /S/ CHARLES F. MCCOY

CHARLES F. MCCOY
VICE PRESIDENT

EXHIBIT "A"

RESIGNATION

Pursuant to the terms of an Agreement effective April 30, 2004, by and between UNIFI, INC. (the "Company") (the terms of which Agreement are incorporated herein by reference) and MICHAEL E. DELANEY ("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 30th day of April, 2004.

/S/ MICHAEL E. DELANEY (SEAL)

MICHAEL E. DELANEY

PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. SUCH PORTIONS ARE DESIGNATED [REDACTED].

CHIP SUPPLY AGREEMENT

EXHIBIT (10Z)

This CHIP SUPPLY AGREEMENT, made and entered into this the 19th day of June, 2003, by and between NAN YA PLASTICS CORP., AMERICA, a Delaware corporation ("Seller") , and UNIFI Manufacturing, Inc., a North Carolina corporation ("Buyer"), with executive offices in Greensboro, North Carolina.

W I T N E S S E T H:

WHEREAS, the Buyer owns and operates a partially oriented yarn ("POY") spinning plant in Yadkinville, North Carolina ("Yadkinville"), and desires to purchase from Seller fiber grade polyester dull, semi-dull and bright luster chip (also known as polyethylene terephthalate chip) ("Chip") and Seller produces Chip at its plant in Lake City, South Carolina ("Lake City"), and has heretofore sold and agrees to continue to sell Chip to Buyer; and

WHEREAS, Buyer and Seller entered into a chip supply Agreement under date of March 18, 1997 which this Agreement updates and supercedes;

NOW, THEREFORE, the parties hereto, for and in consideration of the sum of ten and no/100 dollars ($10.00) and in consideration of these presents and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, agree as follows:

SECTION 1. ORIGINAL TERM - The original term of this Agreement shall be for a period of two (2) years, commencing on the first day of July, 2003, and terminating on the 30th day of June, 2005, unless extended or sooner terminated, as hereinafter provided.

SECTION 2. PURCHASE AND SALE OF CHIP -

(a) The Chip must be produced by Seller and delivered to Buyer in accordance with the specifications as presented on the Chip Specification Sheets, Exhibit "A", attached hereto ("Specification Sheets") for each luster supplied or in accordance with other specifications agreed upon in advance by both Buyer and Seller. Seller shall provide Buyer with a continuous supply of Chip which is in strict compliance with, and within ranges specified for physical and chemical properties presented in the Specification Sheets. Unless previously agreed upon by the parties hereto, the continuous supply of each luster of Chip shall be delivered from specific continuous polymerization units located at Seller's Lake City plant.

(b) Beginning on July 1, 2003, Seller shall manufacture and deliver to Buyer, and Buyer shall purchase and take from Seller, all Buyer's requirement of Chip during the term of this Agreement needed for its POY spinning plant operations in Yadkinville, North Carolina, except for such amount of Chip that Buyer shall manufacture or have manufactured for it from bulk fiber waste and cationic Chip, made to Buyer's specifications. This Agreement obligates Buyer to purchase all its requirement of Chip from Seller, but does not obligate Buyer to purchase a minimum amount of Chip from Seller.

The Chip, as provided in section 2(a), will be delivered in accordance with the production plan heretofore established between the Buyer and Seller and presently in place, or as otherwise agreed upon by the parties hereto. Further production and delivery will be conducted as provided in Section 2(e) herein.

(c) Upon request by Buyer, Seller shall deliver to Buyer information regarding the production and process for the Chip being manufactured by Seller for shipment to Buyer, which may be required for vendor or material "certification of compliance" as required by ISO 9000 or other inbound material quality monitoring process being used by Buyer or its customers.

(d) During the term of this Agreement, or any extension thereof, Seller shall make the Chip available for loading and transport to Buyer's plant continuously between Mondays at 7:00 AM until Saturdays at 5:00 PM, or at other times as agreed upon by the parties hereto.

(e) Buyer shall furnish to Seller a copy of its projected daily needs of the next month Chip by luster on a monthly basis by the 22nd of the current month for the next succeeding month. Such projections are for planning purposes only and shall not constitute a binding commitment of Buyer. Actual orders shall be delivered to the Seller by the Buyer on a monthly basis.

(f) Seller shall maintain at its Lake City plant a minimum Chip inventory of five (5) days of each luster, at no cost to Buyer, to insure that it will have sufficient Chip to meet Buyer's orders. Inventory shall be maintained on a rotating basis, first in first out, and no Chip shall be delivered to Buyer from inventory that does not meet the conditions provided for in Section 2(a) without the Buyer's written consent.

SECTION 3. PRICING TERMS -

(a) Base Bulk Purchase Price - The base bulk purchase price ("base price") for SEMI-DULL CHIP, effective as of July 1, 2003, shall be [REDACTED] above Seller's FOB raw material cost for Pure Terephthalic Acid ("PTA") and Mono-Ethylene Glycol ("MEG").

The base price for FULL BRIGHT CHIP, effective as of July 1, 2003, shall be [REDACTED] above the base price for semi-dull Chip as provided above.

The base price for FULL DULL CHIP, effective as of July 1, 2003, shall be [REDACTED] above the base price for semi-dull Chip as provided above.

(i) The cost of PTA - In determining said base price as of July 1, 2003, the cost of PTA for the month beginning July 1, 2003, and for each month thereafter during the term of this Agreement, or any extension thereof, shall be the published July, 2003 market price as quoted in

[REDACTED], hereinafter referred to as the "[REDACTED] Report". The price shall come from the [REDACTED] line item reported in cents/pound for July, 2003. PTA is quoted as "Delivered" so no freight adjustment shall be made. For the term of this Agreement, or any extension thereof, the stoichiometric material conversion ("conversion") used to calculate Seller's raw material cost for PTA shall be [REDACTED];

(ii) The cost of MEG - In determining said base price as of July 1, 2003, the cost of MEG for the month beginning July 1, 2003, and for each month thereafter during the term of this Agreement, or any extension thereof, shall be the published market price, as quoted in the [REDACTED]. The price shall come from the [REDACTED] line item reported in cents/pound for July, 2003. MEG is quoted FOB so freight shall be added as provided in section 3(a) {iii). If a range is reported, the lower of the prices quoted shall be used. Any retroactive adjustments indicated will be reflected in debits or credits for the affected period as indicated. For the term of this Agreement, or any extension thereof, the stoichiometric material conversion ("conversion") used to calculate Seller's raw material cost for MEG will be [REDACTED];

(iii) MEG Freight Cost From Point Comfort, TX. - Seller shall be reimbursed by Buyer for actual cost for freight from Point Comfort, Texas, to Lake City, South Carolina. As of the effective date of this Agreement, the said freight cost is [REDACTED] per pound ($[REDACTED]/pound). Seller and Buyer are to review the rates annually and upon evidence of change of the actual rate (based on a per pound amount) this amount will be adjusted accordingly.

(b) Material Price Modifications -The base price, as set forth in Section 3(a) above, shall be adjusted for changes in FOB market price for MEG and DELIVERED market price for PTA (increased or decreased) as of the first day of each month thereafter. For Chip delivered to the Buyer during months where the current month's PTA or MEG prices have not been finalized, as provided in section 3(a), the base price invoiced to the Buyer shall be the market price for the previous month. Upon establishment of a market price for the quarter, adjustments to all previous invoices during the quarter shall be made. The price modifications as set forth above are illustrated on Exhibit "B", entitled Chip Pricing Terms, attached hereto.

A new Exhibit "B-1", entitled Chip Pricing Terms, setting forth the bulk purchase price of Chip per pound, effective as of July 1, 2003, FOB Lake City and updating the market price of PTA and MEG, set forth under Price Modifications on Exhibit "B", shall be signed by both parties and attached to this Agreement prior to July 1, 2003.

(c) Annual Adjustments to Base Price - If this Agreement is extended as provided for in Section 9, beginning on June 30, 2004 and annually thereafter (if extended), annual adjustments to the base price, as provided in section 3(a) , shall be made, allowing for increases or decreases in Seller's cost of Labor and Energy.

In determining said annual adjustments to the base price:

(i) Labor Cost Adjustment: On or before June 30, 2003, the average hourly gross earnings per production worker in "[REDACTED]", as reported in the [REDACTED], shall be presented to Buyer by Seller. This shall be the baseline upon which annual adjustments will be made. Beginning on June 30, 2004, and continuing at the end of each year of the contract period, for each 1% change from the baseline established on June 30, 2003, presented above, the price paid by Buyer shall adjust by [REDACTED] cents per pound ($[REDACTED]/pound).

(ii) Energy Cost Adjustment: On or before June 30, 2003, the price of No.2 oil, as presented in [REDACTED], shall be presented to the Buyer by the Seller. This shall be the baseline upon which annual adjustments will be made. Beginning on June 30, 2004, and continuing at the end of each extension year, for any increase or decrease from the per gallon baseline established on June 30, 2003, the price paid by the Buyer shall adjust by [REDACTED] cents ($[REDACTED]) times the total amount of the change from the baseline.

(d) Price Consideration - Except as may be limited by law, Seller agrees that the price to be paid by Buyer for Chip delivered hereunder shall not at any time be greater than the price paid by any of Seller's other customers pursuant to a similar Chip supply contracts for Chip with comparable terms and conditions used for POY production in the U.S.A.

SECTION 4. PAYMENT OF PURCHASE PRICE - Seller shall render its invoice to Buyer as follows:

(a) Daily, using the base bulk price as in effect for the Chip delivered to Buyer that day;

(b) Monthly, for the increase in the total purchase price of Chip over the base bulk price of raw materials, or for crediting Buyer for the decrease in the raw material price, as provided in section 3 hereof, shipped to Buyer during the month and reflecting the adjustments to the base bulk price.

(c) Payment of the purchase price for (a) above shall be net thirty (30) days from shipping date (B/L date) and for the adjustments in (b) shall be net thirty (30) days from receipt of the invoice by Buyer and shall be made to Seller. Interest at prime rate (hereinafter defined), as reported in the Wall street Journal, per month will accrue and become immediately due on all balances not paid in full within thirty (30) days from the date Buyer receives invoice from Seller. (The prime rate being the base rate on corporate loans posted by at least seventy-five percent (75%) of the nations thirty (30) largest banks.)

SECTION 5. DELIVERY - Delivery shall be made FOB Seller's plant, Lake City. Identification of the goods shall occur when they are placed in the hands of the carrier designated by Buyer. Buyer shall bear all risk of loss from the time the goods are placed in the hands of the carrier.

SECTION 6. INDEMNIFICATION - Buyer agrees to defend and indemnify Seller for all claims, lawsuits, and liabilities of any type in connection with or resulting from any personal injuries sustained by any persons in connection with or resulting from the delivery and/or handling of the Chip after the Chip has been placed in the hands of the carrier designated by Buyer, regardless of whether Seller's negligence is alleged to have caused or contributed to such personal injuries.

SECTION 7. EXEMPLARY/PUNITIVE WAIVER - BOTH PARTIES HEREBY UNCONDITIONALLY AGREE THAT NEITHER PARTY SHALL EVER BE LIABLE TO THE OTHER PARTY FOR ANY CONSEQUENTIAL, SPECIAL, OR EXEMPLARY/PUNITIVE DAMAGES OF ANY TYPE IN CONNECTION WITH OR RESULTING FROM THIS AGREEMENT OR THE BREACH THEREOF, UNDER ANY CIRCUMSTANCES.

SECTION 8. SHORTAGE OF CHIP - In the event Seller, because of events beyond its control at its Lake City plant other than Force Majeur situations as defined in section 10, for which performance is excused, has a shortage of Chip and is unable to meet deliveries as ordered, Seller will obtain, at no cost to Buyer, from its other plants or other sources additional Chip of similar quality in order to meet orders.

Seller understands that Buyer cannot operate its spinning plant in Yadkinville, North Carolina without the delivery of Chip contracted for under this Agreement, and agrees that if, for any reason other than Force Majeur situations, as defined in Section 10, for which performance is excused, it is unable to deliver to Buyer the amount of Chip ordered, Buyer may purchase the difference in the amount of Chip ordered and amount Seller was able to deliver (shortage) from other sources and Seller will reimburse Buyer for the cost of the Chip necessary to make up the shortage, in excess of the base price Buyer was paying Seller for Chip at the time the shortage occurred.

SECTION 9. EXTENDED TERM - The parties agree that they will, upon thirty (30) days written notice by one of the parties to the other, meet at a mutually agreeable time and place during the month of March, 2004, and on similar notice from one of the parties, meet during the month of March of each year thereafter for as long as this Agreement is in effect and negotiate in good faith to extend the term of this Agreement for an additional one year term. Any such extension of the term of this Agreement will be evidenced by a writing signed by authorized representatives of the parties.

SECTION 10. FORCE MAJEUR - Buyer and Seller shall not be deemed to have defaulted or failed to perform hereunder if their inability to perform or default shall have been caused by an event or events beyond the control and without the fault of Buyer or Seller, including without limitations, acts of government, fire, flood, explosions, acts of nature, strikes, labor disputes, vandalism, or civil riots.

SECTION 11. INTERRUPTION IN PERFORMANCE - Whenever an event specified in Section 10 above occurs, notice of such event shall immediately be given to the other party.

SECTION 12. TERMINATION - In the event Seller or Buyer institutes or shall have instituted against it proceedings in bankruptcy for liquidation, reorganization or readjustment of any of its respective debts under the Bankruptcy Act, as amended, or any part thereof, or under any other act or law, whether state or federal, for the relief of debtors now or hereafter existing, and the same shall not have been discharged within thirty (30) days after commencement, or shall make an assignment for the benefit of its creditors, the party that is not the subject of said proceeding shall have the right to immediately terminate this Agreement upon giving notice to the other party.

SECTION 13. WARRANTY AGAINST INFRINGEMENTS - Except for instances of Modified Polymers requested by Buyer and addressed below in "Section 14. Modified Polymers", Seller warrants that the Chip being sold to Buyer under this Agreement shall not infringe upon any United States or foreign patent and Seller shall indemnify Buyer against all judgments, decrees, costs, and expenses resulting from any alleged infringement and except for instances of Modified Polymers requested by Buyer and addressed below in "Section 14. Modified Polymers", shall defend, upon written request of Buyer, at its own cost any action which may be brought against Buyer under any claim of patent infringement in relation to said Chip.

SECTION 14. MODIFIED POLYMERS - Seller shall keep Buyer informed of any additional additives added to PET Chip to meet changing market requirements. Buyer, at its additional cost, can request additional ingredients not already included in Seller's standard PET Chip be added in order to meet its market requirements but for any claims, lawsuits, or liabilities of any type related to or resulting directly or indirectly from such specifications for Modified Polymers requested by Buyer, Buyer shall at its own cost defend and indemnify Seller against all judgments, decrees, costs, and expenses, including but not limited to claims or lawsuits alleging patent infringement or theft or misuse of trade secrets of any type.

SECTION 15. MERGER OR CONSOLIDATION - In the event of merger, share exchange, or other transfer of ownership of either party, this Agreement shall remain in full force and effect.

SECTION 16. NOTICES - All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered or mailed, registered, return receipt requested, postage prepaid, as follows:

(a) If to Nan Ya Plastics Corp., America:

Nan Ya Plastics Corp., America
P.O. Box 939
Beulah Road, Hwy. 52 South
Lake City, SC 29560
ATTENTION: Sales Department

(b) If to Unifi, Inc.:

Unifi, Inc.

P.O. Box 19109
Greensboro, NC 27419-9109
ATTENTION: General Counsel
(presently Charles F. McCoy)

SECTION 17. MODIFICATION - No modification, amendment, extension, renewal, recession, termination, or waiver of any of the provisions contained herein, or any future representations, promises or conditions in connection with this Agreement shall be binding upon either party unless in writing and signed by an officer on its behalf.

SECTION 18. ARBITRATION - Any dispute, controversy or claim for damages or otherwise, arising under or in relation to this Agreement, or any modification thereof, shall be settled by arbitration. Such arbitration shall be held in the City of New York before a panel of three (3) arbitrators, with each party appointing one arbitrator and the two parties appointing a third (unless the parties hereto agree to one (1) arbitrator) under the Rules of the General Arbitration Counsel of the Textile and Apparel Industry. Both parties shall be bound by the arbitrators' decision and judgment upon such decision may be entered in any state or Federal Court of competent jurisdiction. The parties hereto consent to the jurisdiction of the Supreme Court of the State of New York or the United States District Court for the Southern District of New York and further, any process or notice of motion or any application to a court or a judge thereof, may be sent within or without the State of New York by certified or registered mail, or by personal service, provided a reasonable time for appearance is allowed.

SECTION 19. ASSIGNMENT - This Agreement may not be assigned by either party without the prior written consent of the other party, provided however, Buyer may assign this Agreement to any of its subsidiaries ("Assignee"}, effective as of the date Notice of such assignment is given to Seller. In the event Buyer assigns this Agreement and the said Assignee fails to perform or satisfy any of the Buyer's obligations under the terms and conditions of this Agreement, Buyer will promptly and fully do so in said Assignee's place. Buyer shall pay and reimburse the Seller for all damages, costs, expenses and losses arising or resulting from Assignee's failure to perform or satisfy the Buyer's obligations under this Agreement.

Buyer's liability is direct and continuing. Seller shall not be required to pursue any remedies against Assignee as a condition to enforcement of Buyer's guaranty of the Assignee's compliance and performance of this Agreement.

SECTION 20. GOVERNING LAW - This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of New York.

SECTION 21. CONFIDENTIALITY -

The Parties acknowledge that throughout the term of this Agreement that certain Confidential Information may be disclosed by one party to the other. If and when such Confidential Information is disclosed:

(a) The Parties shall disclose Confidential Information only to such employees, representatives or agents who are under obligation of secrecy and are directly involved in the matter.

(b) Neither Party shall directly or indirectly exploit on a commercial basis Confidential Information received from the other Party and shall make no use of such Confidential Information otherwise than within the perimeters of this Agreement unless agreed to in writing by the other.

(c) "Confidential Information" includes any information related to the business of either Party acquired by the other regardless of the manner of acquisition, whether through communications, visits, presentations, or the like, or any sensory perceptions, or whether such information has been given verbally or in writing, i.e. in the for, of date, notes, drawing, documentation, software, reports or analysis, or in the form of objects such as samples or models and the terms and conditions of this Agreement and the transactions contemplated herein.

(d) Confidential Information does not include such information which can be proved:

(i) to have been part of the public domain at the time of disclosure to the receiving Party;

(ii) to have been known to the receiving Party at the time of disclosure by the other Party;

(iii) to have become part of the public domain after having been disclosed to the receiving Party and other than by default of the receiving Party or its employees;

(iv) to have come to the knowledge of the receiving Party after disclosure by the other Party and not acquired by the receiving Party from sources not entitled to dispose of such Confidential Information or being under an obligation of secrecy to the other Party;

(v) available by the inspection of products or services marketed or offered for sale in the ordinary course of business by either Party hereto or others.

(e) Nothing in this document shall or may be construed as granting any rights express or implied to Confidential Information furnished by one Party to the other.

IN WITNESS WHEREOF, the parties have executed this Agreement by their duly authorized officers or representatives the day and year written above.

NAN YA PLASTICS CORP., AMERICA

BY: T. Son	6-19-03
TITLE: Assistant Vice President	DATE:

UNIFI MANUFACTURING, INC.

BY: TOM CAUDLE	6-25-03
TITLE: V.P., Global Operations	DATE:

EXHIBIT A

Spec.: Semi Dull Chip (N401)

Description: General Grade Specifications

Property	Unit	A-Grade	Method
A. IV (Intrinsic viscosity)	dL/g	0.645+/-.010	25(degree)C Bath, Solvent 60% Phenol & 40% TCE
B. Ash Content	%	0.35+/-0.07	
C. Color			
1. L, Luminance	-	77.5 +/- 2.0	
2. b, Yellowness	-	0.0 +/- 2.0	
D. DEG	mole %	2.50+/-0.30	
E. Moisture Content	%	< 0.30	
F. Shape/Dimension		Cylindrical/3mm longx3mm diameter	
G. Melting Point	(degree)C	257+/-3	
H. COOH	equ/gx10-6	32+/-10	
I. Thermal Stability	Pass/Fail		

Spec.: Full Bright Chip (A218)

Description: General Grade Specifications

PROPERTY	UNIT	A-GRADE	METHOD
A. IV (Intrinsic Viscosity)	dL/g	0.670+/-0.010	25(degree)C Bath, Solvent 60% Phenol & 40% TCE
B. Ash Content	%	0.035+/-0.005	
C. Color			
1. L, Luminance	-	74+/-2.0	
2. b, Yellowness	-	0.0+/-2.0	
D. DEG	mole %	2.70+/-0.30	
E. Moisture Content	%	<0.30	
F. Shape/Dimension		Cylindrical/3mm longx3mm diameter	
G. Melting Point	(degree)C	250+/-3	
H. COOH	equ/gx10-6	35+/-10	
I. Thermal Stability	Pass/Fail		

Spec.: Full Dull Chip

Description: General Grade Specifications

Property	Unit	A-Grade	Method
A. IV (Intrinsic Viscosity)	dL/g	BASE IV+/-0.008	25(degree)C Bath, Solvent 60% Phenol & 40% TCE
B. Ash Content	%	1.00+/-0.05	
C. Color			
1. L, Luminance	-	78.5+/-3.0	
2. b, Yellowness	-	-0.5+/-3.0	
D. DEG	mole %	2.50+/-0.30	
E. Moisture Content	%	< 0.30	
F. Shape/Dimension		cylindrical/3mm longx3mm diameter	
G. Melting Point	(degree)C	257+/-3	
H. COOH	equ/gx10-6	32+/-10	
I. Thermal Stability	Pass/Fail		

EXHIBIT B

Chip Pricing Terms

[REDACTED]

EXHIBIT (14a)

UNIFI, INC.

ETHICAL BUSINESS CONDUCT POLICY STATEMENT

(As Amended July 22, 2004)

UNIFI, INC.

CORE VALUES

At Unifi we will achieve business and personal success by ensuring that we adhere to a basic set of beliefs and values. At Unifi:

1) We will conduct all business with an absolute commitment to integrity, honesty, and fairness.

2) We are committed to maintaining a work environment that ensures profit and financial security for Unifi, Employees, Share Holders and other stakeholders.

3) We realize that customers are critical to our success and have an unerring commitment to customer service and customer satisfaction. Our customers will realize a competitive advantage in their relationship with Unifi.

4) Employees are not considered commodities or assets. Employees and families are partners who will share in our business successes, difficulties, sacrifices and rewards.

5) Continuous learning, diversity, personal and professional development, safety, and fun will mark our work environment. These are non-negotiable critical components of our business. Employees will realize a personal and professional advantage through employment with Unifi.

6) Our workplace will be marked by the flexibility that combines a healthy respect for tradition while aggressively seeking appropriate change initiatives to ensure the ongoing success of our business. Change is continuous and welcomed.

7) We are committed to building and maintaining competitive advantages not destructive bureaucracies for employees and customers.

8) We will create and maintain simple and effective processes that meet the threats of the marketplace while creating and taking advantage of opportunities. Our processes will embrace cutting edge technology and quality in all aspects of our operations.

9) We will promote a passion for creativity, innovation, personal leadership and an entrepreneurial spirit. Employees will be empowered to think and act in a way that promotes "small business" service and reaction levels.

UNIFI, INC. ETHICAL BUSINESS CONDUCT POLICY STATEMENT

Unifi, Inc. ("Unifi" or the "Company") will conduct its business fairly, impartially, in an ethical and proper manner, and in full compliance with all laws, rules and regulations. In conducting its business, integrity must underlie all Company relationships, including those with customers, suppliers, and communities and among employees. The highest standards of ethical business conduct are required of Unifi employees in performance of their Company responsibilities. Employees will not engage in conduct or activity that may raise questions as to the Company's honesty, impartiality, or reputation or otherwise cause embarrassment to the Company. Conduct that is prohibited under Company policy may not be accomplished on an employee's behalf by anyone outside the Company.

Every employee has the responsibility to ask questions, seek guidance, promptly report suspected violations, and express concerns regarding compliance with this policy and the related procedures. The Company will maintain a program to communicate to employees its commitment to integrity and uncompromising values. The program will inform employees of Company policies and procedures regarding ethical business conduct and assist them in resolving questions and in reporting suspected violations. This reporting process will provide a means of communicating separate from line management, with particular safeguards to maintain confidentiality. Retaliation against employees who use Company reporting mechanisms to raise genuine concerns about other employees will not be tolerated.

The Office of Corporate Compliance under the direction of the Corporate Compliance Officer appointed by the Board of Directors is responsible for providing policy guidance and issuing procedures to assist employees in complying with Company expectations of ethical business conduct and uncompromising values. This policy and related procedures constitute the standards of ethical business conduct required of employees. Managers are responsible for supporting their implementation and monitoring compliance.

In fulfilling its obligations set forth above, the Company does hereby adopt and issue the following as its Ethical Business Conduct Policy Statement ("Policy Statement"). All employees of the Company regardless of office or position shall be held accountable to abide by the Policy Statement in any and all dealings pertaining to the Company's business.

1. PERSONAL CONDUCT

Unifi relies on each of us to fulfill our job and attendance expectations, to follow safety and operating procedures, department and organization rules, and supervisory instructions. We are also expected to conduct ourselves in an orderly and considerate manner and in keeping with the "UNIFI WAY".

HARASSMENT - A basic principle governing relationships at Unifi is that each individual shall be treated with fairness and respect. Harassment, in any form is prohibited, including but not limited to harassment targeted at an individual because of his or her race, color, religion, sex, age, disability, or national origin. The use or circulation of offensive materials, slurs, inappropriate remarks and "humor" at another's expense undermines respect and is not appropriate for our workplace.

Unifi prohibits any conduct that constitutes SEXUAL HARASSMENT. Such harassment can include unwelcome sexual advances, requests for sexual favors, explicit or implicit promises of favorable treatment in return for sexual favors, comments or physical contact of a sexual nature or display of sexually explicit materials in the workplace. No employee should be involved in sexual conduct or activities that create a hostile, offensive or uncomfortable work environment.

WORKPLACE VIOLENCE is another form of harassment. Unifi will not tolerate violence in the workplace in any form. Examples of workplace violence include physical assault, threat of physical harm or assault, stalking, intimidation, and theft or vandalism of Company or personal property.

Possession of firearms on all Company property is prohibited, unless specifically authorized by site procedures or as necessary for an employee's job (e.g., a security guard). Possession includes, but is not limited to, carrying a firearm on your person, or having a firearm in a locker or in a private vehicle on Company property. Carrying firearms in Company vehicles is also prohibited.

ALCOHOL AND DRUGS - All Unifi employees must be free of impairment due to alcohol or drugs upon reporting to work and during all work time.

Unauthorized possession or use of alcohol on Company property is prohibited. Use of alcohol off premises while on Company business is prohibited if such use results in either impairment of the employee's business judgment or job performance or placing the safety of the employee or others at risk.

The illegal possession, use, sale, manufacture, or distribution of illegal drugs (including the abuse or misuse of legal drugs) on Company property or while on Company business is prohibited.

As a condition of continued employment, employees must notify their immediate supervisor in writing of any criminal drug statute conviction within 5 days after such a conviction. In addition, the Company will fulfill its legal obligation to report to the appropriate authorities any person found to be illegally selling, distributing, or possessing drugs.

To achieve and maintain a drug free workplace, each site within the Company will have the discretion to adopt, in coordination with the Legal Department, a program of random drug testing for all employees at that site.

EMPLOYEE PERSONAL RELATIONSHIPS - Personal relationship (i.e., specifically emotional or sexual) between employees on their personal time and off Company property are outside the Company's area of responsibility. However, the Company will become involved, and take appropriate action, if problems resulting from such a relationship manifest themselves on the job or a supervisor engages in such a relationship with a subordinate under his/her supervision.

2. CONFLICT OF INTEREST

Employees should avoid any situation where their personal interests conflict or appear to conflict with the interests of the Company. To be objective, impartial and to act in Unifi's best interest when conducting Company business is expected of each of us. Outside influences and personal interests should not hinder, distract or adversely affect your job performance. This general principle of avoiding conflicts of interest applies to the following:

SUPPLYING GOODS AND SERVICES - No Unifi employee may benefit, or seek to benefit, from the relationships that we have with our customers and suppliers. All employees must be free from the influence of personal considerations when representing the Company in transactions with outside parties, when making recommendations related to such transactions, or when making decisions about such transactions. Situations must be avoided that could lead to divided loyalties or present the appearance of a conflict of interest.

NON-UNIFI EMPLOYMENT - Unifi does not wish to interfere with an employee's activities outside the hours worked for the Company. Employees may engage in other business activities, provided:

- Unifi's relationship with its vendors or customers is not adversely affected.

- Unifi property is not involved without appropriate approval.

- Job performance and attendance are not adversely affected.

- Work time is not used to conduct outside business activity.

No employees may work for suppliers, consultants related to Unifi's field of interest, customers or competitors without prior written approval of the Corporate Compliance Officer.

FINANCIAL INTEREST IN OTHER - Employees and members of their household should not have a significant investment or other financial interest in the business of a customer, a supplier, a competitor, an actual or potential participant in a transaction or other business venture involving Unifi, or any other investment or financial interest that could give the appearance of, or create, a divided loyalty on the part of the employee. Relatively small investments in the securities of publicly owned corporations would not normally be considered a violation of this guideline.

If you have outside interests, activities or employment that may be considered a conflict of interest, you should bring this situation to the attention of your supervisor, the Human Resources Department or the Corporate Compliance Officer.

GIVING/RECEIVING GIFTS OR FAVORS - Unifi sells and purchases superior products and services on the merits of competitive pricing, quality of work and materials, and timely performance. Unifi does not want to conduct business on any other basis.

Employees or members of their household will not offer, solicit, or accept any items of value to/from any person or organization that does or seeks to do business with, or is a competitor of, the Company if such items may be construed as an attempt to influence or induce business. Such practices are not only against Company policy, but may be in violation of the Foreign Corrupt Practices Act if they involve government or political party officials (see Business Outside the U.S.).

Good judgment and reasonableness must be exercised to avoid any potential misinterpretation and adverse effect on the reputation of the Company or its employees. No employee shall ask any of Unifi's customers or suppliers to provide any type of gratuities. If a gift is offered to an employee that is not normally associated with customary business practices, a Company officer or designated delegate must approve its acceptance.

If the purpose is to hold bona fide business discussions or to foster better business relations, the giving or receiving of meals, refreshment, travel arrangements, lodging or accommodations, entertainment, tickets, small gifts, promotional items, and other incidental benefits will be allowed under the following guidelines:

- They are consistent with acceptable business customs and practices.
- They are for a Company business purpose.
- They are not illegal or in violation of the ethical guidelines of the recipient's Company.
- They are of reasonable value and would be paid by normal Company expense account procedures.
- The recipient does not solicit them.
- They cannot be construed as a bribe, pay-off, or kickback.
- They are not given or received on a repetitive basis.
- They will not cause, and would not reasonably be perceived to cause, the recipient to alter normal business judgment concerning any transaction with the Company or impair the individual's loyalty to their employer, and
- They will not be an embarrassment to the Company or the employee if publicly disclosed.

The offer or acceptance of cash, cash equivalents, or securities is not appropriate under any circumstances. An employee or members of his or her household may accept promotional premiums or discounts on personal purchases of a supplier or customer's product only if such discounts are generally offered to all other Company employees.

In some countries outside the United States, local customs may encourage the giving or exchange of gifts to customers or others on special occasions. In these countries, the giving of gifts that are lawful, appropriate and of nominal value is allowed, provided the action cannot be construed as seeking special favor and prior Company approval is obtained. Where Company guidelines would not normally permit an employee to accept a specific gift, but a local custom outside the United States would make refusal of the gift awkward or insulting, the gift should be accepted, if lawful. The employee should immediately consult with supervision concerning the appropriate disposition of the gift.

Special restrictions may apply in certain federal, state, and local government areas and countries outside the United States. Employees should consult with the Legal Department to determine whether there are any special restrictions before engaging in a business relationship in these areas. Under no circumstances should any gifts, entertainment, meals, transportation, lodging, or other things of value be given to employees of state and United States federal agencies.

Any employee who is considering making a payment that could be construed as a "kickback," has been asked to make a questionable payment by a third party, or has been offered something of value in the course of his or her job duties, should contact his or her supervisor or the Legal Department for guidance.

3. REPORTING INTEGRITY

Each Unifi employee is responsible for the integrity, completeness and accuracy of the Company records that he or she prepares or maintains.

All of our accounting records, expense accounts, financial and research reports, time records, and other documents must clearly represent the relevant facts and the true nature of a transaction. No one may alter, knowingly make misleading entries or falsify Company records. Improper or fraudulent accounting, documentation, or financial reporting are contrary to Company policy and may also be in violation of applicable laws. Intentional accounting misclassifications (e.g., expense versus capital) and improper acceleration or deferral of expenses or revenues are examples of unacceptable reporting practices and serious violations of Company policy.

All Company records, whether in physical or electronic form, must be retained in accordance with Unifi's Record Management Program guidelines and applicable statutory and legal requirements.

Failure to adhere to the above guidelines may constitute a violation of the Foreign Corrupt Practices Act.

4. PROTECTION & USE OF COMPANY ASSETS

All employees have the responsibility to protect Company assets and resources from loss, theft, or misuse.

USE OF WORK TIME - The Company expects employees to use their work time to perform their assigned responsibilities not spend time on non-Unifi business and activities.

USE OF TANGIBLE PROPERTY - Tangible property includes inventory, office supplies, computer hardware and software, tools, equipment, vehicles, and cash. The Company does not allow use of these assets for non-Unifi activities without appropriate authorization.

PROTECTION OF COMPANY INFORMATION - Employees should maintain the confidentiality of information entrusted to them by the Company or its customers or suppliers, except when such disclosure is authorized or legally mandated. Information is one of Unifi's most valuable assets. The protection of Company information from unauthorized use, disclosure, or destruction is the responsibility of every Unifi employee. Company information is available to employees only on a need-to-know basis and must be used only for approved Company purposes. Appropriate approvals must be obtained for disclosure of information outside the Company. Failure to adhere to this policy could subject an employee to liability under state "trade secrets" protection laws and the Economic Espionage Act of 1996. As with any company asset, the Company reserves the right to monitor and inspect the use of Company information at any time.

USE OF COMPANY INFORMATION FOR PERSONAL GAIN - As a consequence of your employment with Unifi, you may become aware of nonpublic information about Unifi, its customers, suppliers and competitors. You must not use this information for personal financial profit or other advantage. Failure to adhere to this policy could subject an employee to liability under federal securities laws (see Insider Trading). Further, employees should not take for themselves personally opportunities that are discovered through the use of corporate property, information or position; any such opportunity belongs to the Company.

COPYRIGHTS - Copyrights protect original works of authorship (such as technical papers, news articles, software, videos and artistic works) that are fixed in a form (such as on paper, film, tape, compact disk, floppy disk, or other electronic form). Our copyright policy is to honor the copyrights of others, and we expect others to honor our copyrights. As Unifi employees, we may not copy, photocopy, reproduce (including electronic reproduction) or distribute, transmit by fax or other electronic media (e-mail) any copyrighted work without the permission of the copyright owner or its authorized agent. In a like manner, employees should never copy copyrighted work for their own personal use without permission of the copyright owner.

With regard to computer software, we will only copy and use purchased software in accordance with the applicable licensing agreement. The terms of these agreements vary widely; employees should contact the Department of Information Technology with any questions related to the copying and use of Company software.

PATENTS - Patents protect new and non-obvious products, processes, equipment and compositions. Any new and useful product, process, equipment and/or composition may be patented as long as it is adequately described and appropriately claimed in the patent. Unifi's policy is to honor the valid patents of others, and Unifi expects others to honor Unifi's valid patents.

Prior to commercialization, all new products and processes must be cleared by the Legal Department to ensure their commercialization will not infringe any valid patent held by another. A finding of infringement could result in Unifi losing its right to make the infringing product and payment of damages based upon the sales of the infringing product. In addition, a Court could, in its discretion, award "trebled" (tripled) damages where the infringement is found to have been willful.

Employees may not use patents owned by Unifi for their own personal purposes.

INVENTIONS - Unifi's future growth and competitiveness depend in part upon the success of our research and development efforts. Employees are reminded that any invention or other intellectual property which is conceived by them while employed by Unifi and which relates to Unifi's existing or contemplated business shall be the exclusive property of Unifi.

5. INSIDER TRADING

In addition to being illegal and unethical, it is a violation of Company policy for you to buy or sell stock or other securities while in possession of "material nonpublic (inside) information". This is true for Unifi stock, as well as stock or other securities of suppliers, customers, competitors, venture partners, acquisition candidates, or other companies about which you may possess "material nonpublic information". Information is deemed to be material if there is a substantial likelihood that a reasonable investor would consider the information important in deciding whether to purchase, sell or retain a security. Information is "nonpublic" if it has not been disseminated in a manner making it available to investors generally (by means of a press release, for example).

Examples of information that may be considered material include:

- plans for mergers or significant acquisitions;

- earnings and financial results prior to release;

- news of major changes in senior management or organizational structure;

- threatened litigation or changes in the status of an ongoing lawsuit;

- loss of important contracts or customers;

- planned action regarding our stock; and

- product developments or discontinuations.

If you are aware of such material inside information, you should not purchase or sell the relevant securities until this information has been released to and assimilated by the public. Normally this is considered to have occurred on the third business day after public announcement.

In addition, you may not communicate, discuss or "tip" material or other confidential information to family, friends, or others who may trade or advise others to trade in Unifi stock.

To avoid even the appearance of impropriety and to facilitate compliance with federal securities laws, Unifi policy also prohibits employees from buying or selling "put" or "call" options, or making "short sales" of Unifi stock, whether or not in possession of inside information.

In addition to the restrictions indicated above, additional restrictions apply to Unifi's officers and directors. Any employee who has questions regarding the trading of stock should contact the Legal Department.

Employees involved in the misuse of material nonpublic information and found in violation of the insider trading laws are subject to civil and criminal fines and imprisonment.

6. RELATIONSHIPS WITH OTHER COMPANIES

In all relationships, we wish to treat other parties fairly and honestly by doing what is right, as well as what is legal.

CONTACTS WITH COMPETITORS - In all contacts with competitors or potential competitors, we must avoid any conduct that suggests an express or implied understanding or agreement exists with respect to prices, terms of sale, production for third parties, or with respect to allocation of customers, markets or territories. Such agreements or understandings can serve as the basis for criminal liability under the antitrust laws. Such antitrust violations could expose an employee to imprisonment and the Company to massive monetary penalties and significant civil damage claims.

Therefore, Company policy prohibits any discussion or communication with any representative of a competitor or a potential competitor concerning the following:

- Prices;
- Pricing policies;
- Bids;
- Discounts, royalties or promotions;
- Credit or shipment terms, or other conditions of sale;
- Choice of customers or allocating customers between competitors;
- Territorial markets (i.e., dividing up a territory between competitors);
- Products to be manufactured and/or sold (i.e., agreements with competitors on products to be manufactured and/or marketed by each);
- Production quantities or quotas (i.e., agreements between competitors as to the amount of products to be manufacture and/or sold by each, or the addition of new capacity); and
- Employee compensation practices.

The following are practical suggestions to follow with respect to relationships with competitors:

- If you are invited by a competitor to discuss pricing or other prohibited subjects, you should terminate the discussion immediately and report it to the Legal Department directly or through your supervision/management.
- Do not initiate discussions of pricing or other prohibited subjects with competitors.
- Do not exchange price lists, bids, terms or conditions of sale with a competitor, except in connection with a bona-fide sale to, or purchase from that competitor.
- Do not call representatives of our competitors at their residences.
- Do not ask someone to determine what competitors will do in response to a proposed price move, where obtaining an answer would involve contacting a competitor. Remember that you cannot do anything indirectly that would be a violation of law if done directly. "Signaling" price moves among competitors can be tantamount to an agreement on prices.
- Refrain from discussing pricing or other matters detailed above during any joint venture negotiation or other legitimate contact with our competitors.

BENCHMARKING AND INFORMATION EXCHANGES - Benchmarking is a structured approach for exchanging and analyzing information. Any exchanges of information with, or benchmarking of, competitors, whether directly or through a third party or consultant, must be carefully examined to determine whether they raise antitrust concerns. Such exchanges could include information about prices and terms of sales, credit practices, costs, production levels, future plans and compensation. Accordingly, any such benchmarking or exchanges of information, either directly or through a third party or consultant, should be approved in advance by the Legal Department.

TRADE AND CREDIT ASSOCIATIONS, INDUSTRY GROUPS - Trade and credit associations and industry groups typically involve meetings of competitors. In order to assure compliance with antitrust laws and regulations, membership in such an organization, whether of competitors or customers, require the advance specific written approval of the Legal Department. At such meetings, do not engage in formal or informal discussion of prices or other similar matters with competitors. Legal counsel (retained by the trade association) should be present at all meetings.

INFORMATION ABOUT OTHER COMPANIES - Unifi uses confidential information about other companies in an appropriate business context and limits its availability to those who reasonably need it to conduct Unifi's business. We will not use any illegal or improper act to obtain another company's trade secrets or other confidential business, financial, scientific or technical information. The use of industrial espionage, trespassing, burglary, wiretapping, or stealing to obtain such information is prohibited. We will not hire a competitor's employees to obtain confidential information, or improperly solicit confidential data from employees of any party.

As a Unifi employee, you must not disclose or discuss confidential information from a previous employer with any Unifi employee. You must advise Unifi if you are obligated under any written agreement of confidentiality with a former employer, and must adhere to the letter and spirit of any such agreement. Should you have in your possession any potentially confidential information from a former employer, we recommend that you return it immediately.

It is good general practice to avoid passing information obtained from one company to another.

Unifi does not promote its business by disparaging its competitors, their products, or their services.

CONFIDENTIAL INFORMATION PROVIDED BY OTHER COMPANIES - Unifi's policy is not to accept information that could be deemed confidential, restricted or limited in its disclosure or use, unless a written agreement specifying the rights and obligations of all parties has been approved by Unifi's Legal Department and signed by an authorized representative of each party. A properly executed and approved agreement is necessary to help assure that Unifi's business, research, development and technical services activities are not compromised, and that an unwanted confidential relationship is not claimed by another party. An appropriate agreement also can help to avoid the improper receipt of information under the Economic Espionage Act of 1996.

Until such an agreement is in place, Unifi employees should refuse to discuss or accept the confidential information of others. Examples of such confidential information could include: unsolicited disclosures by outside inventors, drawings and manuals that bear markings asserting confidentiality, proprietary designs, processes, methods, systems, procedures or formulas, or confidential financial information or business planning documents.

Unifi employees visiting the offices and plants of customers, suppliers, and competitors should not sign visitor registration pads or passes that contain secrecy agreements or confidentiality clauses.

Where a secrecy or confidentiality agreement is necessary for such visits, an appropriately drafted agreement should be approved by the Legal Department and executed by the parties prior to the visit.

GOVERNMENT CONTRACTING - There are complex regulations governing persons and entities that contract with the federal government. Such contracts can be significantly different than those encountered in contracting with private commercial entities. Government procurement regulations cover costing, quality control and testing, payment of gratuities and kickbacks to government employees, the hiring or retaining of former government employees, and the confidentiality of government information.

RECIPROCAL DEALING - Unifi's decision to buy goods and services from a supplier must be made independently from the supplier's decision to purchase Unifi products or services.

7. MARKETING

In marketing our products, we must observe all of the basic antitrust principles noted above. There are, however, some additional legal and ethical principles that should govern our conduct.

Our advertising should always be truthful. If we make specific claims about our products or the performance of our products, we should have evidence to substantiate those claims. We should not label or market our products in any way that might cause confusion between our products and those of any of our competitors. Similarly, we should be alert to any situation where a competitor may be attempting to mislead potential customers as to the origin of products and inform appropriate management or the Company's legal department of any such cases.

If we offer advertising or promotional allowances, we should offer them on a proportionately equal basis to all of our customers. Advertising and promotional allowances are subject to very detailed and technical regulation under the Robinson-Patman Act and, therefore, should only be offered after approval from the Company's Legal Department.

We should not disparage any of the products, services, or employees of any of our competitors. If we do engage in any comparison of our products against those of our competitors, such comparisons should be fair. Comparative advertising is also subject to some regulation and should, therefore, be cleared with the Company's Legal Department beforehand. All use of the Company's trademarks and trade names should be in accordance with our policies governing such use.

We will not use gifts, excessive entertainment, nor any other ways to improperly influence our potential customers. We will market our products on the basis of our price, quality, and service.

8. GOVERNMENT INVESTIGATIONS

It is the policy of the Company to fully cooperate with any government investigation. A condition of such cooperation, however, is that the Company be adequately represented in such investigations by its own legal counsel. Accordingly, anytime anyone in the Company obtains any knowledge that would lead one to reasonably believe that a government investigation or inquiry was underway, this information should be communicated immediately to the Company's Legal Department. Of course, our routine dealings with the government (e.g., tax audits, audits from Labor Department personnel, and OSHA and environmental inspections) are not covered by this policy.

Appropriate handling of government investigations is very important for the Company, for management, and for all employees. Virtually all of the federal laws regulating the conduct of the Company's business, including antitrust, securities, OSHA, environmental, government procurement, tax, and financial laws, contain civil and criminal penalties. The criminal penalties apply to the corporation and to those individuals within the Company who actually took the actions that violated the law or failed to take actions that resulted in a violation of the law.

Employees should never, under any circumstances,

(1) destroy any Company documents in anticipation of a request for those documents from any government agency or a court;

(2) alter any Company documents or records;

(3) lie or make any misleading statements to any government investigator (this includes routine, as well as nonroutine investigations -- there is a separate federal statute on making such false statements to investigators of a crime); or

(4) attempt to cause any other Company employee, or any other person, to fail to provide information to any government investigator or to provide any false or misleading information.

9. BUSINESS OUTSIDE THE U.S.

Unifi will conduct its international business activities in strict compliance with all U.S. laws, including laws governing such issues as antitrust, customs, duties, anti-boycott, export control, and foreign corrupt practices. The Company will also obey all applicable laws of the countries where we do business. Since these laws may vary widely from those in the United States and from country to country, care will be taken to identify and accommodate these differences. Where laws do not exist or where the laws, customs, or business practices are less demanding than the Company's policies and guidelines, we will use the Company's higher expectations to guide our actions.

ANTI-BOYCOTT - Unifi will not participate in or support economic boycotts that are not sanctioned by the U.S. government. Under the anti-boycott laws, we cannot do such things as:

- Refuse to do business with an illegally boycotted country;

- Furnish or agree to furnish information about business relationships with illegally boycotted countries; or

- Pay, honor, issue, confirm or negotiate a letter of credit requiring Unifi to participate in an illegal boycott.

Boycott related requests are often received orally or in the form of a contract bid, purchase order, insurance verification, letter of credit, shipping document, or joint venture or alliance negotiations. Any request to participate in or support an illegal economic boycott must be reported to the government. Failure to do so is a violation of U.S. law. These laws apply to Unifi's operations inside and outside the United States. If you receive a boycott request, contact the Legal Department.

EXPORT CONTROL - The United States and many other governments have laws and regulations that govern, and in some cases prohibit, the export/release of products and technical data from one country to another. Unifi's policy is to comply with export regulations worldwide.

According to the U.S. regulations, no controlled technical data or products may be shipped out of the United States without a license from the U.S. Government. Re-export of products or technical data from the original destination to yet another country may require a re-export license to be in place PRIOR to shipment to the re-export destination.

"Technical data" as used in the U.S. Regulations means any information that can be used or adapted for use in the design, production, manufacture, utilization, or reconstruction of articles or materials.

Acts of exportation of technical data include: disclosing technical information to an employee of one of our foreign subsidiaries, disclosing technical information to a non-U.S. citizen, including Unifi employees or consultants who do not have a green card, and providing information to non-U.S. companies or individuals. Thus, any disclosure involving a non-U.S. person or entity must be reviewed prior to export.

The export laws and regulations are constantly changing. If you have any questions regarding the proposed export of products or technical data, review the matter with the Legal Department.

PAYMENTS TO U.S. & FOREIGN GOVERNMENT OFFICIALS & EMPLOYEES - Unifi's policy is to comply with all applicable laws and regulations regarding payments to or providing things of value to both United States and foreign government officials and employees.

We will not offer, authorize, or make any illegal payments, or provide anything of value, directly or indirectly, to a foreign or U.S. official (including legislators), political party or candidate for political office to use his/her influence to obtain or retain business for the Company. Both the offer and actual payment of anything of value is illegal. Payments to third parties are also prohibited if a person knows or should have known that the third party will make an illegal payment to a foreign or U.S. official.

FACILITATING OR EXPEDITING PAYMENTS - Facilitating or expediting payments to secure timely performance of "routine governmental actions" that the Company is entitled to under local law are not prohibited. Such actions include obtaining permits and licenses, processing visas and work permits, mail pickup and delivery, and providing telephone and water service and supply. "Routine governmental action" does not include any governmental decision whether, or on what terms, to award business to the Company. Where payments for "routine governmental actions" are required, they will be made only after prior approval of Company counsel, they will be limited to customary and nominal amounts and will be made only to facilitate the proper performance of these actions. The decision of an official of whether to award business to the Company may NEVER be considered a "routine governmental action" for these purposes.

Facilitating and expediting payments will be recorded as a business expense in the Company's books and records. All payments of this type made by employees in the course of Company travel must be properly noted and labeled on their expense statements. Employees should exercise extreme caution in the making of such payments where payments of this type have not been previously approved, advance approval of Company legal counsel is required.

If you have any questions about the legality of any contemplated gift or payment to an U.S. or foreign official and elected representative, contact the Legal Department.

10. POLITICAL ACTIVITIES

Participation in the political process is a basic right. However, it is important to make a distinction between individual and corporate political activities to assure compliance with applicable laws and regulations.

INDIVIDUAL POLITICAL ACTIVITIES - As an individual, participation in the political process includes such activities as serving in public office, voting, making financial contributions and working in support of candidates and political organizations. Employees' involvement in such activities should be completely voluntary and in compliance with applicable laws.

Employees considering seeking public office should be aware of applicable Company personnel policies and discuss this matter with their supervisor or Human Resources Representative. To prevent a conflict of interest and assure compliance with applicable law, at NO time should Unifi's name, information, property, time, or other resources be used for political activities not specifically sponsored or approved by the Company.

CORPORATE POLITICAL ACTIVITIES - Federal law generally prohibits Unifi from engaging in corporate political activities, expenditures, or contributions. However, the Company may (subject to restrictions under federal law) expend corporate funds to create a "separate segregated fund" (political action committee or "PAC") from which it may make political contributions using funds solicited from certain employees. The Company may also have certain dealings with persons in government if, generally, there is no "contribution" or "expenditure" to "influence the election" of a "candidate".

11. ACCESS TO ELECTRONIC COMMUNICATIONS AND INTERNET ACTIVITIES

The Company respects the individual privacy of its employees, but these privacy rights do not extend to the employee's work-related conduct or to the use of Company-provided equipment or facilities. The Company's voice mail, Internet and E-mail systems are the property of the Company and, thus, are expected to be used primarily for job-related communications. Although each employee has an individual password to access the system, the contents of E-mail communications and Internet activities are accessible at all times by the Company for any business purpose. While the Company permits incidental and occasional use of E-mail and the Internet for personal use, such messages and activity are treated the same as other messages and Company activity, and the Company reserves the right to access and disclose all Internet activities and messages transmitted via its E-mail system regardless of content. Thus, employees should never use

E-mail or the Internet to transmit a message or conduct activities that they would not want read by or transmitted to a third party.

Employees are strictly forbidden from using the Company's Internet or E-mail system for any improper purpose, including the transmission of messages that may be viewed as insulting or offensive to another person. Examples of such forbidden transmissions include sexually explicit messages, cartoons, jokes, unwelcome propositions, or love letters; ethnic or racial slurs; or any other message that could be construed as harassment or disparagement of others on the basis of sex, race, religion, national origin, age, sexual orientation, or disability.

12. MEDIA RELATIONS

The Company values its relationships with those in the media and will endeavor to provide full and prompt disclosure of all material developments or events. All statements to the media or responses to inquiries from the media shall be either handled through the Corporate Compliance Officer or coordinated his office.

In the event the media inquiry relates to a pending or threatened legal matter, media communications should also be coordinated with the Company's lawyers. Any employee asked for a statement from a member of the media should respond by explaining this policy.

13. SHAREHOLDER AND BONDHOLDER RELATIONS

The Company values its relationships with all of its shareholders and bondholders. Any communication from a shareholder or a bondholder requesting information relating to the Company should be forwarded to the Company's Chief Financial Officer for proper handling.

14. ENVIRONMENTAL, HEALTH, AND SAFETY

Company policy is to preserve natural resources to the maximum extent reasonably possible. We will also conduct all of our business operations in such a way as to avoid or minimize any possible adverse impact on the environment. Of course, the Company will also comply with all environmental laws and regulations. Specifically, this includes the responsibility of the Company and its employees to provide truthful and accurate information to the government permitting authorities in connection with any application for any environmental permit or any periodic reports that may be called for under such permit.

15. ADMINISTRATIVE MATTERS (INTERPRETATION, REPORTING MECHANISMS, COMPLIANCE, AND DISCIPLINE)

INTERPRETATION -- The Corporate Compliance Officer is responsible for interpreting and applying these policies to specific situations in which questions may arise. The Corporate Compliance Officer will also maintain a record of interpretations issued under these policies so that such interpretations can be consistent throughout the Company. Any questions relating to how these policies should be interpreted or applied should be addressed to the Corporate Compliance Officer.

VIOLATION OF THE POLICIES - Employees must report to the Corporate Compliance Officer any violation or suspected violation of this policy or any law or regulation as soon as it is discovered. All such reported violations will be treated confidentially to the extent practicable under the circumstances and in accordance with Unifi's legal obligations. No employee reporting any suspected violation in good faith will be subject to retaliation for having made the report, unless the employee implicates himself or herself. In addition, anyone who retaliates, directly or indirectly, or encourages others to do so, against anyone who reports a violation of a law or of this policy will be subject to appropriate disciplinary measures.

Any employee violating any of these policies shall be subject to discipline. THE COMPANY RESERVES THE RIGHT IN ITS SOLE DISCRETION TO TERMINATE THE EMPLOYMENT OF ANY EMPLOYEE WHO VIOLATES THE TERMS HEREOF. In other cases, the Company may have an obligation to call violations of these policies to the attention of appropriate enforcement authorities as, in some cases, violations of these policies is also a violation of the law.

AUDITS -- In some cases, compliance with these policies will be monitored by periodic audits. These may be done by the Company's lawyers (for example, in the case of compliance with the antitrust laws) or by the Corporate Compliance Officer or by the Company's auditors. All Company employees are required to cooperate fully with any such audits and to provide truthful and accurate information.

REQUESTS FOR EXCEPTION -- While some of these Company policies must be strictly adhered to and no exceptions can be allowed, in other cases, exceptions may be possible. Any employee, other than an Executive Officer (Executive Officers should follow the procedures below), who believes that an exception to any of these policies is appropriate in his or her case should contact his or her immediate supervisor first. If the immediate supervisor agrees that an exception is appropriate, the approval of the Corporate Compliance Officer shall then be obtained. The Office of Corporate Compliance shall be responsible for maintaining a complete record of all requests for exceptions to any of these policies and the disposition of such requests.

EXECUTIVE OFFICERS - Executive Officers are also subject to the Code of Business Conduct and Ethics for Members of the Board of Directors and Executive Officers (the "Executive Policy"). Any violations of the Executive Policy or of this policy statement by an Executive Officer shall be reported to the Audit Committee of the Board of Directors, and any requests for waivers of the Executive Policy or of this policy statement by an Executive Officer shall be either approved or disapproved by the Audit Committee. Waivers for the benefit of Executive Officers will be promptly disclosed as required by law or stock exchange regulation.

DEFINITION AND APPLICATION -- This policy applies to all Company operations worldwide. Company operations shall mean the Company and any other entity in which the Company owns a controlling interest. This policy shall be translated into all appropriate languages that may be necessary to fully communicate it to all Company employees.

DISTRIBUTION -- Every employee of the Company shall be given a copy of this policy statement (either in paper or electronic format) and asked to sign a statement acknowledging that they have received and read it. Every new employee will be given a copy of the policy statement and asked to acknowledge receipt of it either at or within one week of hiring.

CHANGES OR AMENDMENTS -- In the event of any changes or amendments to this policy, such changes or amendments will be provided to all Company employees in the most expeditious way possible. If there are interpretations of the policy of broad application to our employees, those will also be appropriately distributed.

NONEXCLUSIVITY -- No representation is expressed or implied that the policies stated herein are all the relevant policies nor that they are a comprehensive, full, or complete explanation of the laws that are applicable to the Company and its employees. All Company employees have a continuing obligation to familiarize themselves with applicable law and Company policy.

16. DISCLAIMER OF EMPLOYMENT CONTRACT

Unless there is a specific and personal written employment agreement between the Company, signed by the Compensation Committee of the Company, and an employee, the employee is free to leave the employment of the Company or the Company may terminate the employment of the employee at any time, for any reason. The Company's policy is to be an employment-at-will employer. Nothing contained in this Policy Statement or in other publications of the Company is intended by the Company to be, nor shall it be construed as, an employment agreement.

EXHIBIT (14b)

UNIFI, INC.
CODE OF BUSINESS CONDUCT & ETHICS
FOR MEMBERS OF THE BOARD OF DIRECTORS
AND EXECUTIVE OFFICERS

RESPONSIBILITIES OF DIRECTORS AND EXECUTIVE OFFICERS

The Board of Directors of Unifi, Inc. (the "Company") has adopted this Code of Business Conduct & Ethics for the members of the Board of Directors and the Executive Officers (as defined under the regulations of the Securities and Exchange Commission and which includes the principal executive officer, principal financial officer and principal accounting officer) of the Company.

Each Director and Executive Officer shall be responsible for complying with this Code. Executive Officers of the Company must also comply with the Unifi, Inc. Ethical Business Conduct Policy Statement.

If any Director or Executive Officer believes that a prohibited act under this Code has occurred, then he or she shall promptly report such belief to the Chairman of the Audit Committee and the General Counsel. While this is the preferred reporting procedure, alternatively, any Director or Executive Officer should feel free to report any such alleged prohibited act hereunder to the Chairman of the Board or the Chairman of the Corporate Governance and Nominating Committee.

On behalf of the Board, the Audit Committee (or, at the discretion of the independent members of the Board, the Corporate Governance and Nominating Committee or other appropriate committee) will review and investigate any such reported prohibited act, without the participation of any Director who may be the subject of such report. If the appropriate committee determines that any such act represents a violation under this Code, then appropriate remedial or disciplinary action will be promptly taken. The Company will disclose any such violation and the remedial or disciplinary action taken, to the extent required by the Federal securities or other applicable laws. If the appropriate committee determines that any such act represents a violation under this Code, but does not believe that any remedial or disciplinary action is necessary or desirable (or if the Audit Committee or other appropriate committee of the Board or the Board agrees to waive compliance with a provision of the Code on behalf of any Director or Executive Officer), then the Company shall promptly disclose the violation or waiver and rationale for its decision.

All Directors and Executive Officers are expected to provide full assistance and disclosure to the Board, any committee of the Board, the Company and agents of the Company in connection with any review of compliance with this Code.

1. CONFLICTS OF INTEREST

Every Director and Executive Officer has a duty to avoid business, financial or other direct or indirect interests or relationships which conflict with the interests of the Company or which divide his or her loyalty to the Company. A conflict or the appearance of a conflict of interest may arise in many ways. Each Director and Executive Officer must deal at arm's length with the Company and should disclose to the Audit Committee and Corporate Compliance Officer any conflict or any appearance of a conflict of interest on his or her part. Any activity which even appears to present such a conflict should be avoided or terminated unless, after such disclosure to the Audit Committee and Corporate Compliance Officer, it is determined that the activity is not harmful to the Company or otherwise improper. The end result of the process of disclosure, discussion and consultation may well be approval of certain relationships or transactions on the ground that, despite appearances, they are not harmful to the Company. But all conflicts and appearances of conflicts of interest must follow through this process.

2. CONDUCT OF BUSINESS AND FAIR DEALING

No Director or Executive Officer shall:

- compete with the Company by providing service to a competitor as an employee, officer or director or in a similar capacity;

- profit, or assist others to profit, from confidential information that is obtained in connection with the Director's or Executive Officer's service to the Company;

- take personally opportunities that are discovered through the use of corporate property, information or position without first offering such opportunity to the Company;

- improperly influence or attempt to influence any business transaction between the Company and another entity in which a Director or Executive Officer has a direct or indirect financial interest or acts as an employee, officer or director or in a similar capacity; or

- take unfair advantage of any customer, supplier, competitor or other person through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or other unfair-dealing practice.

3. COMPLIANCE WITH LAWS AND REGULATIONS

Consistent with our business philosophy, it is the policy of Unifi, Inc. to comply with the laws of each country in which we do business. Each Director and Executive Officer shall comply with all applicable laws, rules and regulations, and shall use all reasonable efforts to oversee compliance by employees, other Directors and other Executive Officers with all applicable laws, rules and regulations.

4. USE OF NON-PUBLIC INFORMATION AND DISCLOSURE

A Director or Executive Officer who knows important information about the Company that has not been disclosed to the public must keep such information confidential. It is a violation of United States law to purchase or sell Unifi, Inc. stock on the basis of such important nonpublic information. Directors and Executive Officers may not do so and may not provide such information to others for that or any other purpose.

Directors and Executive Officers also may not buy or sell securities of any other company using material non-public information obtained in the performance of their duties on behalf of the Company and may not provide any such information so obtained to others.

Directors and Executive Officers shall maintain the confidentiality of any non-public information learned in the performance of their duties on behalf of the Company, except when disclosure is authorized or legally mandated.

5. USE OF COMPANY FUNDS, ASSETS AND INFORMATION

Each Director and Executive Officer shall protect the Company's funds, assets and information and shall not use the Company funds, assets or information to pursue personal opportunities or gain.

No Company funds, assets or information shall be used for any unlawful purpose.

6. RECORD-KEEPING

The Company's policy is to make full, fair, accurate, timely and understandable disclosure in reports and documents that it releases to the public or files with regulatory agencies. All transactions should be accurately reflected in the Company's books and records. All books and records and bank accounts or other repositories of assets of the Company shall be subject to all normal accounting and auditing controls, and the falsification of any of the Company's books and records or the maintenance of any secret bank accounts or repositories is strictly prohibited. No Director or Executive Officer shall engage in any arrangement that results in such prohibited act.

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Exhibit (21)

UNIFI, INC.

SUBSIDIARIES

Name	Address	Incorporation	Unifi Percentage Of Voting Securities Owned
Unifi Textured Yarns Europe, Ltd.	Letterkenny, Ireland	Ireland	100% - UH2
Unifi Dyed Yarns, Ltd.	Manchester, England	United Kingdom	100% - UH2
Unifi International Services, Inc. ("UISI")	Warwickshire, England	North Carolina	100%
Unifi International Services Europe	Lyon, France	France	100% - UISI
Unifi GmbH	Oberkotzau, Germany	Germany	100% - UH2
Unifi Italia, S.r.l.	Viale Andreis, Italy	Italy	100% - UH2
UNF Industries, Ltd.	Migdal Ha - Emek, Israel	Israel	50% - UH2
Unifi Holding 1, BV ("UH1")	Amsterdam, Netherlands	Netherlands	100%
Unifi Holding 2, BV ("UH2")	Amsterdam, Netherlands	Netherlands	100% - UH1
Unifi Asia, Ltd.	Hong Kong, China	China	100% - UH2
Unifi Asia Holding, SRL	St Michael, Barbados	Barbados	100%
Unifi do Brasil, Ltda	San Paulo, Brazil	Brazil	100%
Unifi Manufacturing, Inc. ("UMI")	Greensboro, NC	North Carolina	100%
Unifi Sales & Distribution, Inc. ("USD")	Greensboro, NC	North Carolina	100%
Unifi Manufacturing Virginia, LLC	Greensboro, NC	North Carolina	95% 5% - UMI
Unifi Export Sales, LLC	Greensboro, NC	North Carolina	95% 5% - UMI

Unifi-SANS Technical Fiber, LLC	Madison, NC	North Carolina	50% - UMI
Unifi Technical Fabrics, LLC	Greensboro, NC	North Carolina	100% - USD
Charlotte Technology Group, Inc. ("CTG")	Greensboro, NC	North Carolina	100% USD
UTG Shared Services, Inc.	Greensboro, NC	North Carolina	100% - CTG
Unifi Textured Polyester, LLC	Greensboro, NC	North Carolina	85.42% - UMI
Unifi Kinston, LLC	Greensboro, NC	North Carolina	100% - UMI
Glentouch Yarn Company, LLC	Greensboro, NC	North Carolina	100% - UMI
Unimatrix Americas, LLC	Greensboro, NC	North Carolina	100% - UMI
Spanco Industries, Inc. ("SI")	Greensboro, NC	North Carolina	100% - UMI

[SI owns: 100% Spanco International, Inc., ("SII"), a North Carolina corporation]

[SII owns: 83% Unifi Latin America, S.A., a Columbian sociedad anonime; the remainder of Unifi Latin America is presently owned by:
1% Unifi designees
16% Spanco - Panama, S.A.]

Exhibit (23a)

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-23201) pertaining to the Unifi, Inc. 1982 Incentive Stock Option Plan and the 1987 Non-Qualified Stock Option Plan and the Registration Statement (Form S-8 No. 33-53799) pertaining to the Unifi, Inc. 1992 Incentive Stock Option Plan and Unifi Spun Yarns, Inc. 1992 Employee Stock Option Plan, and the Registration Statement (Form S-8 No. 333-35001) pertaining to the Unifi, Inc. 1996 Incentive Stock Option Plan and the Unifi, Inc. 1996 Non-Qualified Stock Option Plan and the Registration Statement (Form S-8 No. 333-43158) pertaining to the Unifi, Inc. 1999 Long-Term Incentive Plan of our report dated July 26, 2004, with respect to the consolidated financial statements and schedule of Unifi, Inc. included in this Annual Report (Form 10-K) for the year ended June 27, 2004.

/s/ Ernst & Young LLP

Greensboro, North Carolina
September 17, 2004

Exhibit (23b)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-23201) pertaining to the Unifi, Inc. 1982 Incentive Stock Option Plan and the 1987 Non-Qualified Stock Option Plan and the Registration Statement on Form S-8 (No. 33-53799) pertaining to the Unifi, Inc. 1992 Incentive Stock Option Plan and Unifi Spun Yarns, Inc. 1992 Employee Stock Option Plan, and the Registration Statement Form S-8 (No. 333-35001) pertaining to the Unifi, Inc. 1996 Incentive Stock Option Plan and the Unifi, Inc. 1996 Non-Qualified Stock Option Plan and the Registration Statement on Form S-8 (No. 333-43158) pertaining to the Unifi, Inc. 1999 Long-Term Incentive Plan of Unifi, Inc. of our report dated March 3, 2004 except as to Note 5 which is as of August 26, 2004, relating to the financial statements of Parkdale America, LLC, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina
September 16, 2004

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 annual report on Form 10-K 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(s) 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(s) 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: September 17, 2004

/s/ BRIAN R. PARKE

BRIAN R. PARKE
CHAIRMAN OF THE BOARD,
PRESIDENT AND
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.:

1. I have reviewed this annual report on Form 10-K 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(s) 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(s) 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: September 17, 2004

/s/ WILLIAM M. LOWE, JR.

WILLIAM M. LOWE, JR.
VICE PRESIDENT,
CHIEF OPERATING OFFICER 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") Annual Report on Form 10-K for the period ended June 27, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian R. Parke, Chairman of the Board, President and 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: September 17, 2004

By: /s/ BRIAN R. PARKE

Brian R. Parke
Chairman of the Board,
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") Annual Report on Form 10-K for the period ended June 27, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William M. Lowe, Jr., Vice President, Chief Operating Officer 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: September 17, 2004

By: /s/ WILLIAM M. LOWE, JR.

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