UNIFI INC
Form 10-K
September 10, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 27, 2010
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____to _____
Commission file number 1-10542
UNIFI, INC.
(Exact name of registrant as specified in its charter)

New York	**11-2165495**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
P.O. Box 19109 7201 West Friendly Avenue Greensboro, NC	**27419-9109**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(336) 294-4410
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange

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

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X]
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ]	Smaller reporting company [ ]

(Do not check if a smaller reporting company)

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

As of December 27, 2009, the aggregate market value of the registrant s voting common stock held by non-affiliates of the registrant was $157,631,243. The Registrant has no non-voting stock.

As of September 6, 2010, the number of shares of the Registrant s common stock outstanding was 60,172,300.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement to be filed with the Securities and Exchange Commission (the SEC) in connection with the solicitation of proxies for the Annual Meeting of Shareholders of Unifi, Inc., to be held on October 27, 2010, are incorporated by reference into Part III. (With the exception of those portions which are specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed or incorporated by reference as part of this report.)

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PART I

Item 1. Business

Unifi, Inc., a New York corporation formed in 1969 (together with its subsidiaries the Company or Unifi), is a diversified producer and processor of multi-filament polyester and nylon yarns. The Company s product offerings include specialty and premier value-added (PVA) yarns with enhanced performance characteristics. The Company sells its products to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, hosiery, furnishings, automotive, industrial and other end-use markets. The Company maintains one of the industry s most comprehensive product offerings and emphasizes quality, style and performance in all of its products. The Company s net sales and net income for fiscal year 2010 were $617 million and $10.7 million, respectively.

The Company uses advanced production processes to manufacture its high-quality yarns cost-effectively. The Company believes that its flexibility and know-how in producing specialty yarns provides important development and commercialization advantages. A significant number of customers, particularly in the apparel market, produce finished goods that meet the eligibility requirements for duty-free treatment in the regions covered by the North American Free Trade Agreement (NAFTA), the United States (U.S.)-Dominican Republic-Central American Free Trade Agreement (CAFTA), the Caribbean Basin Trade Partnership Act (CBTPA) and the Andean Trade Promotion and Drug Eradication Act (ATPDEA). These regional trade preference acts and free trade agreements contain rules of origin for synthetic fiber yarns. In order to be eligible for duty-free treatment, fibers such as partially oriented yarn (POY) and wholly formed yarns (extruded and spun) must be used to manufacture finished textile and apparel goods within the respective region. The Company has manufacturing operations in North, Central, and South America and participates in joint ventures in Israel and the U.S. In addition, the Company has a wholly-owned subsidiary in the People s Republic of China (China) focused on the sale and promotion of the Company s specialty and PVA products in the Asian textile market, primarily in China.

The Company also works across the supply chain to develop and commercialize specialty yarns that offer eco-friendly, performance, comfort, aesthetic and other characteristics that enhance demand for its products. In an effort to distinguish its specialty premium value-added products in the marketplace, the Company has developed an extensive product offering of PVA yarns, commercialized under several brand names, including REPREVE®, SORBTEK®, A.M.Y.®, MYNX® UV, REFLEXX®, and AIO®.

Recent Developments

On October 8, 2009, the Company formed a new joint venture, UNF America, LLC (UNF America), with Nilit Ltd. (Nilit) for the purpose of producing nylon POY in Nilit s Ridgeway, Virginia plant. The Company s initial investment in UNF America was $50 thousand dollars. In addition, the Company loaned UNF America $0.5 million for working capital. In conjunction with the formation of UNF America, the Company entered into a supply agreement with U.N.F. Industries Ltd. (UNF), a pre-existing joint venture, and UNF America whereby the Company is committed to purchase its requirements, subject to certain exceptions, for first quality nylon POY for texturing from UNF or UNF America. Pricing under the contract is re-negotiated every six months and is based on market rates.

On January 11, 2010, the Company announced that it created Unifi Central America, Ltda. DE C.V. (UCA). With a base of operations established in a free-trade zone in El Salvador, UCA will produce yarns that are compliant under the CAFTA and will primarily service customers in the Central American region. The Company began dismantling and relocating polyester twisting and texturing equipment to El Salvador during the third quarter of fiscal year 2010 and expects to complete the relocation during the second quarter of fiscal year 2011. The Company expects to incur approximately $1.6 million in polyester equipment relocation costs of which $0.8 million was incurred during fiscal year 2010. The Company began shipping locally-produced yarn during the fourth quarter of fiscal year 2010.

During the fourth quarter of fiscal year 2010, the Company announced its plans to invest in the commercialization of recycled PVA products through a capital project related to the backwards supply integration for the Company s 100% recycled Repreve® product. In February 2010, the Board of Directors approved a plan to expand its production capabilities to include a new state-of-the art recycled chip facility in Yadkinville, North Carolina. This backward integration of the recycle supply chain will provide opportunities for the Company to recycle both post-consumer and post industrial waste back into its Repreve® products. This will allow the Company to improve the availability of recycled raw materials, and significantly increase product capabilities and competitiveness in this growing market segment.

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In April 2010, the Company entered into an agreement to form a new joint venture, Repreve Renewables, LLC (Repreve Renewables). This joint venture was established for the purpose of acquiring the assets and the expertise related to the business of cultivating, growing, and selling biomass crops, including feedstock for establishing biomass crops that are intended to be used as feedstock in the production of renewable fuels or energy in the U.S. and the European Union. The Company received a 40% ownership interest in the joint venture for its contribution of $4 million. In addition, the Company contributed $0.3 million for its share of initial operating capital.

On May 25, 2010, the Company announced that it was calling for the redemption of $15 million of its 11.5% senior secured notes (2014 notes) at a redemption price of 105.75% of the principal amount of the redeemed notes. This redemption was subsequently completed on June 30, 2010 and was financed through a combination of internally generated cash and borrowings under the Company s senior secured asset-based revolving credit facility. As a result, the Company will record in its first quarter of fiscal year 2011 a $1.1 million charge related to the premium paid for the bonds and the retirement of related bond issue costs.

Segment Financial Information

Information regarding revenues, a measurement of profit or loss and total assets by segment, is presented in Footnote 15-Business Segments, Foreign Operations and Concentrations of Credit Risk included in the Company s consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Industry Overview

The textile and apparel industry consists of natural and synthetic fibers used in a wide variety of end-markets which primarily include apparel, furnishings, industrial and consumer products, floor coverings, fiber fill and tires.

The synthetic filament industry includes petrochemical and raw material producers, polyester and nylon fiber and yarn manufacturers, fabric and product producers, consumer brands and retailers. Product pricing, innovation, quality, support, location and trade regulation compliance are competing and differentiating attributes among synthetic filament yarn producers within the industry. Both product innovation and product quality are particularly important, as product innovation gives customers competitive advantages and product quality provides for improved manufacturing efficiencies.

Since 1980, global demand for polyester has grown steadily, and in calendar year 2003, polyester replaced cotton as the fiber with the largest percentage of sales worldwide. In calendar year 2009, global polyester consumption accounted for an estimated 46% of global fiber consumption and demand is projected to increase by approximately 4% annually through 2015. In calendar year 2009, global nylon consumption accounted for an estimated 5% of global fiber consumption and demand is projected to increase by approximately 1% annually through 2015. In the U.S., the polyester and nylon fiber sectors together accounted for approximately 55% of the textile consumption during calendar year 2009.

According to the National Council of Textile Organizations, the U.S. textile market s total shipments were $48.7 billion for the twelve month period ended November 2009. The industrial and consumer, floor covering, apparel and hosiery, and furnishings markets account for 40%, 35%, 16% and 9% of total production, respectively. The industry has increased productivity by 50% over the last ten years and ranks second among all industrial sectors within the U.S. in productivity increases. During 2004 to 2008, the U.S. textile and apparel industry spent approximately $11 billion in capital expenditures, making it one of the most modern and productive textile sectors in the world. During calendar year 2009, the U.S. textile and apparel industry employed approximately 420,000 people and exported more than $10 billion, making the U.S. the third largest exporter of textile products in the world.

Rules of Origin

Government legislation commonly referred to as the Berry Amendment generally requires the U.S. Department of Defense to purchase textile and apparel articles which are manufactured in the U.S. of yarns and fibers produced in the United States. The American Recovery and Reinvestment Act passed on February 13, 2009 contained a similar provision, referred to as the Kissell Amendment, that generally requires the U.S. Department of Homeland Security s Transportation Security Administration and the U.S. Coast Guard to buy textile and apparel products made in the U.S.

The Company believes the requirements of the rules of origin and the associated duty-free cost advantages in the regional free trade agreements (FTA), such as NAFTA and CAFTA, together with the Berry and Kissell Amendments, and the growing need for quick response and inventory turns, ensures that a significant portion of the textile industry will remain based in the America regions. The Company also believes the future success of its current business model will be based on the success of the free trade markets and its ability to: increase its sales of PVA yarns; implement cost saving strategies; pass on raw material price increases to its customers and strategically penetrate growth markets, such as China, Central America, and Brazil.

General economic conditions, such as raw material prices, interest rates, currency exchange rates and inflation rates that exist in different countries have a significant impact on competitiveness, as do various country-to-country trade agreements and restrictions. See Item 1A Risk Factors The Company faces intense competition from a number of domestic and foreign yarn producers and importers of textile and apparel products for a further discussion.

Trade Regulation

Imports from Asia have gained significant share over the last several years as a result of lower wages, lower raw material and capital costs, unfair trade practices and favorable currency exchange rates against the U.S. dollar. Imports of foreign textile and apparel products are a considerable source of competition for the Company, particularly in the apparel and hosiery market segments. Although global apparel imports represent a significant percentage of the U.S. market, regional trade agreements, which allow duty free advantages for apparel made from regional fibers, yarns and fabrics, allow the Company opportunities to participate in the growing market.

The extent of import protection afforded by the U.S. government to domestic textile producers has been subject to considerable domestic political deliberation and foreign considerations. Under the multilateral trading rules established by the World Trade Organization (WTO), all textile and apparel quotas were eliminated as of January 1, 2005. During calendar year 2005, textile and apparel imports from China surged, primarily gaining share from other Asian importing countries. To that end, the U.S. government imposed temporary safeguard quotas on various categories of Chinese-made products, citing market disruption. These safeguard quotas remained in effect until December 31, 2008. Since the beginning of 2009, the share of trade from the regional trade areas has remained relatively stable and the Company is optimistic about the prospects of future stability and potential growth. During the last 12 months, approximately 27 companies have announced investments in North America for plant expansions in the textile and apparel sector.

Although quotas on textiles and apparel imports were eliminated after December 31, 2008, tariffs on imported products remain in effect. A seven-year effort under the WTO Doha Round to establish further tariff liberalization was delayed in August 2008 due to a breakdown in agricultural negotiations between developed and emerging economies. Further Doha rounds are under consideration, however, major obstacles remain in the global trade talks and little progress is expected in the near term.

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

In 2000, the U.S. passed the CBTPA, amended by the Trade Act of 2002, which allows apparel products manufactured in the Caribbean region using yarns or fabric produced in the U.S. to be imported into the U.S. duty and quota free. Also in 2000, the U.S. passed the African Growth and Opportunity Act (AGOA), which was amended by the Trade Act of 2002, which allows apparel products manufactured in the sub-Saharan African region using yarns and fabrics produced in the U.S. to be imported into the U.S. duty and quota free. The CBTPA continues in effect until September 30, 2020 and the AGOA is in effect through 2015.

In August 2005, the U.S. passed CAFTA, which is a FTA between seven signatory countries: the U.S., the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The CAFTA supersedes the CBTPA for the CAFTA signatory countries and provides permanent benefits not only for apparel produced in the region, but for all textile products that meet the rules of origin. Qualifying textile and apparel products that are produced in any of the seven signatory countries from fabric, yarn and fibers that are also produced in any of the seven signatory countries may be imported into the U.S. duty free. Two CAFTA amendments were implemented in August 2008; one includes changes to require that pocketing yarn and fabric used in trousers would have to be produced in the U.S. or a CAFTA signatory country and a second cumulation rule that permits a certain amount of woven apparel produced in a CAFTA signatory country containing Mexican or Canadian yarns and fabrics to enter the

U.S. duty free.

The ATPDEA passed on August 6, 2002, effectively granting participating Andean countries favorable trade terms similar to those of the other regional trade preference programs. Under the ATPDEA, apparel manufactured in Bolivia, Colombia, Ecuador and Peru using yarns and fabric produced in the U.S., or in these four Andean countries, could be imported into the U.S. duty and quota free through December 31, 2006. A temporary extension of the ATPDEA was granted to coincide with the ongoing FTA negotiations with several of these Andean nations. The U.S.-Peru Trade Promotion Agreement, signed on April 12, 2006, and FTA s with Colombia and Panama awaiting Congressional action also follow, for the most part, the same yarn forward rules of origin for textile and apparel products as NAFTA.

Trade preferences were approved by Congress in May, 2010 for Haiti s textile industry as part of the earthquake relief effort. The measure allows duty free entry for some apparel items that do not contain US yarns and fibers; however, the act did take into account certain important apparel categories from the perspective of the US textile industry. Additionally, the Company operates under FTA s with Australia, Bahrain, Chile, Israel, Jordan, Morocco, Oman and Singapore. The U.S.-Korea FTA (Korea FTA), negotiated under the Bush Administration, has not yet been enacted and it has been speculated that it will not be enacted until automotive issues and other controversial items are resolved in future negotiations. The current Administration has begun negotiations for the eight-nation TransPacific Partnership Agreement (TPP); however, the first few rounds have only focused on the preliminary framework of the agreement. See Item 1A Risk Factors Changes in trade regulatory environment could weaken the Company s competitive position dramatically and have a material adverse effect in its business, net sales and profitability for more information.

Environmental Matters

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

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

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

On September 30, 2004, the Company completed its acquisition of the polyester filament manufacturing assets located at Kinston, North Carolina (Kinston) from Invista S.a.r.l. (INVISTA). The land for the Kinston site was leased pursuant to a 99 year ground lease (Ground Lease) with E.I. DuPont de Nemours (DuPont). Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the United States Environmental Protection Agency (EPA) and North Carolina Department of Environment and Natural Resources (DENR) pursuant to the Resource Conservation and Recovery Act Corrective Action program. The Corrective Action program requires DuPont to identify all potential areas of environmental concern (AOCs), assess the extent of containment at the identified AOCs and clean it up to comply with applicable regulatory standards. Effective March 20, 2008, the Company entered into a Lease Termination Agreement associated with the conveyance of certain assets at Kinston to DuPont. This agreement terminated the Ground Lease and relieved the Company of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to the Company s period of operation of the Kinston site. However, the Company continues to own a satellite service facility acquired in the INVISTA transaction that has contamination from DuPont s operations and is monitored by DENR. This site has been remedied by DuPont and DuPont has received authority from DENR to discontinue remediation, other than natural attenuation. DuPont s duty to monitor and report to DENR with respect to this site will be transferred to the Company in the future, at which time DuPont must pay the Company for seven years of monitoring and reporting costs and the Company will assume responsibility for any future remediation and monitoring of the site. At this time, the Company has no basis to determine if and when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same.

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Products

The Company manufactures polyester related products in the U.S., El Salvador and Brazil and nylon yarns in the U.S. and Colombia for a wide range of end-uses. In addition, the Company purchases fully drawn yarn (FDY) and certain drawn textured yarns (DTY) for resale to its customers. The combined polyester segment represented approximately 73%, 72%, and 74% of consolidated sales for fiscal years 2010, 2009 and 2008, respectively, and the nylon segment represented approximately 27%, 28%, and 26% of consolidated sales, respectively. The Company processes and sells POY, as well as high-volume commodity, specialty and PVA yarns, domestically and internationally, with PVA yarns making up approximately 15% of consolidated sales.

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

In addition to producing high-volume commodity yarns, the Company develops, manufactures and commercializes specialty yarns that provide performance, comfort, aesthetic and other advantages to fabrics and garments. The Company continues to expand the Repreve® family of recycled fibers, which now includes more than nine different recycled product options. These product options include filament polyester (available as 100% hybrid (post-industrial and post-consumer) blend or 100% post-consumer), filament nylon 6.6, staple polyester and recycled performance fibers. The Company s recycled performance fibers are manufactured to provide performance and/or functional properties to fabrics and end products such as flame retardation, moisture wicking, and performance stretch. The Company s branded portion of its yarn portfolio continues to grow to provide product differentiation to brands, retailers and consumers. These branded yarn products include:

Repreve®, a family of eco-friendly yarns made from recycled materials. Since introduced in August 2006, Repreve® has been the Company s most successful branded product. Repreve® can be found in well-known brands and retailers including the Wal-Mart s Starter and George brands, North Face, Patagonia, REI, LL Bean, AllSteel, Hon, Steelcase, Perry Ellis, Blue Avocado, H&M, Sears, Macy s and Kohl s.

aio® all-in-one performance yarns combine multiple performance properties into a single yarn. aio® has been very successful with brands, such as Reebok and Champion, and retailers including Costco (Kirkland brand), and Target (C9 brand). In addition, aio® yarns are used by brands MJ Soffe and New Balance for several U.S. military apparel products.

Sorbtek®, a permanent moisture management yarn primarily used in performance base layer applications, compression apparel, athletic bras, sports apparel, socks and other non-apparel related items. Sorbtek® can be found in many well-known apparel brands, including Reebok and Asics, and is also used by MJ Soffe and New Balance for the U.S. military.

A.M.Y. ®, a yarn with permanent antimicrobial properties for odor control. A.M.Y.® is being used by Reebok in its NFL Equipment line, Champion, and MJ Soffe and New Balance for the U.S. military.

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

Reflexx®, a family of stretch yarns that can be found in a wide array of end-use applications from home furnishings to performance wear and from hosiery and socks to workwear and denim. Reflexx® can be found in many products including those used by the U.S. military.

For fiscal years 2010, 2009, and 2008, the Company incurred $6 million, $4.9 million, and $4.2 million of expense, respectively, for its branding, marketing, commercialization and research and development activities.

Sales and Marketing

The Company employs a sales force of approximately 40 persons operating out of sales offices in the U.S., Brazil, China, El Salvador and Colombia. The Company relies on independent sales agents for sales in several other countries. The Company seeks to create strong customer relationships and continually seeks ways to build and strengthen those relationships throughout the supply chain. Through frequent communications with customers, partnering with customers in product development and engaging key downstream brands and retailers, the Company has created significant pull-through sales and brand recognition for its products. For example, the Company works with brands and retailers to educate and create demand for its value-added products. The Company then works with key fabric mill partners to develop specific fabric for those brands and retailers utilizing its PVA products. Based on the results of many commercial and branded programs, this strategy has proven to be successful for the Company.

Customers

The Company sells its polyester yarns to approximately 1,000 customers and its nylon yarns to approximately 200 customers in a variety of geographic markets. Products are generally sold on an order-by-order basis for both the polyester and nylon segments. Yarn is manufactured based upon product specifications and shipped based upon customer order requirements.

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

In fiscal year 2010, the Company had sales to Hanesbrands, Inc. (HBI) of approximately $60 million which represented 9.8% of the Company s consolidated net sales. The Company s sales to HBI were primarily related to the nylon segment. The Company and HBI established a new long-term supply contract that was finalized in the second quarter of fiscal year 2010.

Manufacturing

The Company produces polyester POY for its commodity, specialty and PVA yarns in its polyester spinning facility located in Yadkinville, North Carolina. The spinning process involves an extrusion of molten polymer from polyester polymer beads (Chip) into polyester POY. The molten polymer is extruded through spinnerettes to form continuous multi-filament raw yarn. The Company purchases Chip from external suppliers for use in its spinning facility. The Company also purchases much of its commodity polyester POY from external suppliers for use in its texturing operations. The Company also purchases nylon POY and other yarns from two joint ventures and other external suppliers for use in its nylon texturing and covering operations.

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

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

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

As discussed in *Recent Developments* , the Company plans to increase its investment in the commercialization of recycled PVA products by investing approximately $8 million in capital projects for a new recycle chip facility in Yadkinville, North Carolina. This facility will allow the Company to improve the availability of recycled raw materials and significantly increase product capabilities and competitiveness in this growing segment and is expected to be operational in February 2011.

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

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Suppliers and Sourcing

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

The Company also purchases certain nylon and polyester products for resale in the U.S., Brazil, and China. The domestic resale product suppliers include NanYa, Universal Premier Fibers, LLC, Qingdao Bangyuan Industries Company Ltd, Nilit, and Ashahi Kasei Spandex America, Inc. The Company s Brazilian operation purchases resale products primarily from PT Polysindo EKA Perkasa, Formosa Chemicals and Fibre Corporation, Formosa Industries Corporation, Alok Industries, Ltd. and Reliance. The Company s China subsidiary primarily purchases its resale products from an affiliate of Sinopec Yizheng Chemical Fiber Co., Ltd (YCFC), its former joint venture partner.

Joint Ventures and Other Equity Investments

The Company participates in joint ventures in Israel and the U.S. See Management s Discussion and Analysis of Financial Condition and Results of Operation Joint Ventures and Other Equity Investments included elsewhere in this Annual Report on Form 10-K for a more detailed description of its joint ventures.

Competition

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

The polyester segment s major regional competitors are O Mara, Inc., and NanYa in the U.S., AKRA, S.A. de C.V. in the NAFTA region, and C S Central America S.A. de C.V. (CS Central America) in the CAFTA region. The Company s major competitors in Brazil are Avanti Industria Comercio Importacao e Exportacao Ltda. and Ledervin Industria e Comercio Ltda. The nylon segment s major regional competitors are Sapona Manufacturing Company, Inc., and McMichael Mills, Inc. in the U.S. and Worldtex, Inc in the ATPDEA region. See Item 1A Risk Factors The Company faces intense competition from a number of domestic and foreign yarn producers for a further discussion.

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

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

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

business, financial condition and competitive position of several other participants in the supply chain in which it operates. See Item 1A. Risk Factors for more information.

In the apparel market, a significant source of overseas competition comes from textile and apparel manufacturers that operate in lower labor and lower raw materials cost countries such as China. The primary competitive factors in the textile industry include price, quality, product styling and differentiation, flexibility of production and finishing, delivery time and customer service. The needs of particular customers and the characteristics of particular products determine the relative importance of these various factors. Several of the foreign competitors to the Company s current supply chain have significant competitive advantages, including lower wages, raw materials costs, capital costs, and favorable currency exchange rates against the U.S. dollar which could make the Company s products, or the related supply chains, to be less competitive which may cause its sales and operating results to decline. In addition, while traditionally these foreign competitors have focused on commodity production, they are now increasingly focused on specialty and value-added products where the Company generates higher margins. In recent years, international imports of fabric and finished goods in the U.S. have significantly increased, resulting in a significant reduction in the Company s customer base. The primary drivers for that growth are lower over-seas operating costs, increased overseas sourcing by U.S. retailers, the entry of China into the free trade markets and the staged elimination of all textile and apparel quotas. In May 2005, the U.S. government imposed safeguard quotas on various categories of Chinese-made products, citing market disruption. Following extensive negotiations, the U.S. and China entered into a bilateral agreement in November 2005 resulting in the imposition of quotas on a number of categories of Chinese textile and apparel products which remained in effect until December 31, 2008. As a result of the elimination of these safeguard quotas and the effects of the economic crisis, competition intensified in calendar year 2009, with China taking additional share of the market from regional and Asian countries. However, in calendar year 2010, the apparel import trends point towards a recovery of regional sourcing and the Company expects the region to hold share for the remainder of calendar year 2010.

The U.S. automotive upholstery market has been less susceptible to import penetration because of the exacting specifications and quality requirements often imposed on manufacturers of automotive upholstery and the just-in-time delivery requirements. Effective customer service and prompt response to customer feedback are logistically more difficult for an importer to provide. Nevertheless, North American automotive production declined by approximately 32% during calendar year 2009 due to the U.S. economic downturn and styling changes driven by consumer preferences. However, automotive production trends seen during year-to-date calendar year 2010 point towards a recovery in the automotive market with production during the first half of calendar year 2010 running at 65% to 70% higher compared to the prior year.

Backlog and Seasonality

The Company generally sells products, including its PVA yarns, 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 retail sales. Deviations between expected sales and actual consumer demand result in significant adjustments to desired inventory levels and, in turn, replenishment orders placed with suppliers. This changing demand ultimately works its way through the supply chain and impacts the Company. As a result, the Company does not track unfilled orders for purposes of determining backlog but will routinely reconfirm or update the status of orders. Consequently, backlog is generally not applicable to the Company, and it does not consider its products to be seasonal.

Intellectual Property

The Company has 28 U.S. registered trademarks, none of which are material to any of the Company s reporting segments or its business taken as a whole. The Company licenses certain trademarks, including Dacron® and Softec from INVISTA.

Employees

The Company employs approximately 2,400 employees of whom approximately 2,370 are full-time and approximately 30 are part-time employees. Approximately 1,700 employees are employed in the polyester segment, approximately 600 employees are employed in the nylon segment and approximately 100 employees are employed in its corporate office. While employees of the Company s foreign operations are generally unionized, none of the domestic employees are currently covered by collective bargaining agreements. The Company believes that its relations with its employees are good.

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Net Sales and Long-Lived Assets By Geographic Area

	Fiscal Years Ended		
	June 27, 2010	June 28, 2009	June 29, 2008
	(Amounts in thousands)		
Domestic operations:			
Net sales	$ 458,327	$ 434,015	$ 581,400
Total long-lived assets	204,967	209,117	240,547
Brazil operations:			
Net sales	$ 130,199	$ 113,458	$ 128,531
Total long-lived assets	22,731	22,454	36,301
Other foreign operations:			
Net sales	$ 28,227	$ 6,190	$ 3,415
Total long-lived assets	9,949	3,110	9,820

On January 11, 2010, the Company announced that it created UCA located in El Salvador. As of June 27, 2010, UCA had $1.6 million in long lived assets and $5.7 million in sales. In December 2008, the Company created Unifi Textiles Suzhou Co., Ltd. (UTSC), a wholly-owned Chinese sales and marketing subsidiary. UTSC had sales of $18.4 million and $3 million, respectively, for fiscal years 2010 and 2009. In addition, one of the Company s other foreign subsidiaries invested in two new joint ventures totaling $4.8 million during fiscal year 2010. See Footnote 2-Investments in Unconsolidated Affiliates for further discussion of these new investments.

Available Information

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

Item 1A. Risk Factors

In the course of conducting operations, the Company is exposed to a variety of risks that are inherent to the textile business. The following discusses some of the key inherent risk factors that could affect the Company s business and operations, as well as other risk factors which are particularly relevant to the Company during the current period. Other factors besides those discussed below or elsewhere in this report could also adversely affect the Company s business and operations, and these risk factors should not be considered a complete list of potential risks that may affect the Company. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. See Item 7. Forward-Looking Statements for further discussion of forward-looking statements about the Company s financial condition and results of operations.

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

The Company s principal sources of liquidity are cash flows generated from operations and borrowings under its revolving credit facility. On September 9, 2010 the Company entered into the First Amendment to the Amended and Restated Credit Agreement which provides for a new revolving credit facility, (the First Amended Credit Agreement). The First Amended Credit Agreement amends its former revolving credit facility (Amended Credit Agreement). The Company s ability to make payments on, to refinance its indebtedness and to fund planned capital expenditures will depend on its ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond its control.

The business may not generate cash flows from operations, and future borrowings may not be available to the Company under its First Amended Credit Agreement in an amount sufficient to enable the Company to pay its indebtedness and to fund its other liquidity needs. If the Company is not able to generate sufficient cash flow or borrow under its First Amended Credit Agreement for these purposes, the Company may need to refinance or restructure all or a portion of its indebtedness on or before maturity, reduce or delay capital investments or seek to raise additional capital.

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The Company may not be able to implement one or more of these alternatives on terms that are acceptable or at all. The terms of its existing or future debt agreements may restrict the Company from adopting any of these alternatives. The failure to generate sufficient cash flows or to achieve any of these alternatives could materially adversely affect the Company s financial condition.

In addition, without such refinancing, the Company could be forced to sell assets to make up for any shortfall in its payment obligations under unfavorable circumstances. The Company s First Amended Credit Agreement and the Indenture for its 11.5% senior secured notes (2014 notes) limit its ability to sell assets and also restrict the use of proceeds from any such sale. Furthermore, the 2014 notes and its First Amended Credit Agreement are secured by substantially all of its assets. Therefore, the Company may not be able to sell its assets quickly enough or for sufficient amounts to enable the Company to meet its debt service obligations.

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

A significant portion of the Company s raw materials and energy costs are derived from petroleum-based chemicals. The prices for petroleum and petroleum-related products and energy costs are volatile and dependent on global supply and demand dynamics including geo-political risks. While the Company enters into raw material supply agreements from time to time, these agreements typically provide index pricing based on quoted feedstock market prices. Therefore, its supply agreements provide only limited protection against price volatility. While the Company has at times in the past matched cost increases with corresponding product price increases, the Company was not always able to immediately raise product prices, and, ultimately, pass on underlying cost increases to its customers. The Company has in the past lost and expects that it will continue to lose, customers to its competitors as a result of any price increases. In addition, its competitors may be able to obtain raw materials at a lower cost due to market regulations. Additional raw material and energy cost increases that the Company is not able to fully pass on to customers or the loss of a large number of customers to competitors as a result of price increases could have a material adverse effect on its business, financial condition, results of operations or cash flows.

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

The Company s industry is highly competitive. The Company competes not only against domestic and foreign yarn producers, but also against importers of foreign sourced fabric and apparel into the U.S. and other countries in which the Company does business. The Company s major regional competitors are AKRA, S.A. de C.V., CS Central America, O Mara, Inc., and NanYa, in the polyester yarn segment and Sapona Manufacturing Company, Inc., McMichael Mills, Inc. and Worldtex, Inc. in the nylon yarn segment. The Company s major competitors in Brazil are Avanti Industria Comercio Importacao e Exportacao Ltda., Polyenka Ltda and Ledervin Industria e Comercio Ltda. The Company anticipates that competitor expansions or new competition within these regions may lead to reduced industry utilization rates that could result in reduced gross profit margins for the Company s products, which may materially adversely affect its business, financial condition, results of operations or cash flows.

Related to competitive conditions in Brazil, Petrobras Petroleo Brasileiro S.A. (Petrobras), a public oil company controlled by the Brazilian government, announced the construction of a polyester manufacturing complex located in the northeast sector of the country. This new investment in polyester capacity is made by Petrobras through its wholly owned subsidiary, Petrosuape-Companhia Petroquimica de Pernambuco (Petrosuape). Petrosuape will produce purified terephthalic acid (PTA), polyethylene terephthalate (PET) resin, polyester chip, POY and textured polyester. Construction on various phases of the project have commenced. While the Company may actually be a customer of the Petrosuape POY operations, it will most likely be a competitor of the textured polyester operations, which are planned to be approximately twice the capacity of the Company s Brazilian subsidiary (Unifi do Brazil). Petrosuape s textured polyester operation started limited production in July 2010 and is expected to be in full commercial production by January 2012. Such significant capacity expansion may negatively affect the utilization rate of the synthetic textile filament market in Brazil, thereby potentially impacting the operating results of Unifi do Brazil. Additionally, the use of Petrosuape POY in Unifi do Brazil s operations would result in it losing certain economic assistance benefits provided to its operations that would have to be made up through pricing concessions from

Petrosuape and/or efficiency gains in Unifi do Brazil s operations. Failure to make up these benefits could have a material adverse effect on Unifi do Brazil s and/or the Company s business, financial condition, results of operations or cash flows.

The importation of garments and fabric from lower wage-based countries and overcapacity throughout the world has resulted in lower net sales, gross profits and net income for the Company s polyester and nylon segments. The primary competitive factors in the textile industry include price, quality, product styling and differentiation, flexibility of production and finishing, delivery time and customer service. The needs of particular customers and the characteristics of particular products determine the relative importance of these various factors. Because the Company, and the supply chain in which the Company operates, do not typically operate on the basis of long-term contracts with textile and apparel customers, these competitive factors could cause the Company s customers to rapidly shift to other producers. A large number of the Company s foreign competitors have significant competitive advantages, including lower labor costs, lower raw materials and favorable currency exchange rates against the U.S. dollar. If any of these advantages increase, the Company s products could become less competitive, and its sales and profits may decrease as a result. In addition, while traditionally these foreign competitors have focused on commodity production, they are now increasingly focused on value-added products, where the Company continues to generate higher margins. Competitive pressures may also intensify as a result of the elimination of China safeguard measures and the potential elimination of duties. The Company, and the supply chain in which the Company operates, may therefore not be able to continue to compete effectively with imported foreign-made textile and apparel products, which would materially adversely affect its business, financial condition, results of operations or cash flows.

An increase of illegal transshipments of textile and apparel goods into the U.S. could have a material adverse effect on the Company s business.

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

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

The Company s products are used in the production of fabric primarily for the apparel, hosiery, home furnishing, automotive, industrial and other similar end-use markets. Demand for furniture and durable goods, such as automobiles, is often affected significantly by economic conditions. Demand for a number of categories of apparel also tends to be tied to economic cycles and customer preference. Domestic demand for textile products therefore tends to vary with the business cycles of the U.S. economy as well as changes in global trade flows, and economic and political conditions. Future armed conflicts, terrorist activities, economic and political conditions or natural disasters in the U.S. or abroad and any consequent actions on the part of the U.S. government and others may cause general economic conditions in the U.S. to deteriorate or otherwise reduce U.S. consumer spending. A decline in general economic conditions or consumer confidence may also lead to significant changes to inventory levels and, in turn, replenishment orders placed with suppliers. These changing demands ultimately work their way through the supply chain and could adversely affect demand for the Company s products and have a material adverse effect on its business, net sales and profitability.

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

As product demand flow shifts within a region the Company could lose its cost competitiveness due to the location of its assets.

The Company s polyester segment primarily manufactures its products in Brazil, and the U.S. The Company recently began relocating a portion of its polyester production from the U.S. to El Salvador to better service the U.S.-Dominican Republic-Central American Free Trade Agreement (CAFTA) region and to take advantage of lower manufacturing and transportation costs. The Company s nylon segment primarily manufactures its products in Colombia and the U.S., which has the Company s largest nylon operations. As product demand flow shifts within the regions in which the Company does business it could lose its cost competitiveness due to the location of its assets. The Company operations may incur higher manufacturing, transportation and/or raw material costs in its present operating locations than it could achieve should its operations be located in these new product demand centers. This could adversely affect the competitiveness of the Company s operations and have a material adverse effect on its business, net sales and profitability.

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The Company s future operating results, deteriorating conditions in the credit markets, declining credit ratings or abnormally high interest rates or other adverse debt instrument terms could make it difficult for the Company to refinance its indebtedness on favorable terms or at all when it comes due.

The Company s ability to refinance its indebtedness on favorable terms or at all will depend on its ability to generate adequate operating results in the future, the prevailing conditions of the credit markets, the Company s credit agency debt ratings, and interest rate and other debt instrument terms available in the credit markets at the time the Company refinances its indebtedness. As of June 27, 2010, the Company had a total of $182 million of debt outstanding, including $179 million related to its 2014 notes and $2.9 million related to other long-term liabilities. However, on May 25, 2010, the Company announced that it was calling for the redemption of $15 million of the 2014 notes at a redemption price of 105.75% of the principal amount of the redeemed notes. This redemption was completed on June 30, 2010. As of June 27, 2010, there were no outstanding borrowings under the Amended Credit Agreement. The 2014 notes are due and payable in May 2014. Outstanding amounts under the First Amended Credit Agreement are due and payable in September 2015, provided that unless the 2014 notes are repaid in full on or before February 15, 2014, then the First Amended Credit Agreement terminates on February 15, 2014. If the Company were unable to refinance its indebtedness on a timely basis it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

The success of the Company depends on the ability of its senior management team, as well as the Company s ability to attract and retain key personnel.

The Company s success is highly dependent on the abilities of its management team. The management team must be able to effectively work together to successfully conduct the Company s current operations, as well as implement the Company s strategy. If it is unable to do so, the results of operations and financial condition of the Company may suffer. The failure to retain current key managers or key members of the design, product development, manufacturing, merchandising or marketing staff, or to hire additional qualified personnel for its operations could be detrimental to the Company s business. The Company currently does not have any employment agreements with its corporate officers and cannot assure investors that any of these individuals will remain with the Company. The Company currently does not have life insurance policies on any of the members of the senior management team.

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

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

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

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

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

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

Current economic conditions and uncertain economic outlook could adversely affect the Company s results of operations and financial condition.

The global economy is currently undergoing a period of unprecedented volatility. The Company cannot predict when economic conditions will improve or stabilize. A prolonged period of economic volatility or continued decline could adversely affect demand for the Company s products and have a material adverse effect on its business, net sales and profitability.

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

A significant portion of the Company s strategy relies upon its ability to successfully rationalize and improve the efficiency of its operations. In particular, the Company s strategy relies on its ability to reduce its production costs in order to remain competitive. The Company has consolidated multiple unprofitable businesses and made significant capital expenditures to more completely automate its production facilities to lessen its dependence on labor and decrease waste. If the Company is not able to continue to successfully implement cost reduction measures, or if these efforts do not generate the level of cost savings that it expects going forward or result in higher than expected costs, there could be a material adverse effect on its business, financial condition, results of operations or cash flows.

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

A number of sectors of the textile industry in which the Company sells its products, particularly apparel, hosiery and home furnishings, are subject to intense foreign competition. Other sectors of the textile industry in which the Company sells its products may in the future become subject to more intense foreign competition. There are currently a number of trade regulations and duties in place to protect the U.S. textile industry against competition from low-priced foreign producers, such as China. Changes in such trade regulations and duties may make its products less attractive from a price standpoint than the goods of its competitors or the finished apparel products of a competitor in the supply chain, which could have a material adverse effect on the Company s business, net sales and profitability. In addition, increased foreign capacity and imports that compete directly with its products could have a similar effect. Furthermore, one of the Company s key business strategies is to expand its business within countries that are parties to FTAs with the U.S. Any relaxation of duties or other trade protections with respect to countries that are not parties to those FTAs could therefore decrease the importance of the trade agreements and have a material adverse effect on its business, net sales and profitability. An example of potentially adverse consequences can be found in the CAFTA agreement. A customs ruling has been issued that allows the use of foreign synthetic singles textured sewing thread in the CAFTA region. This ruling allows for increased foreign competition due to the duty-free treatment of CAFTA apparel containing the foreign thread component. Failure to overturn this ruling or correct this drafting error in the

FTA could have a further material adverse effect on this business segment. See Item 1. Business Trade Regulation for more information.

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The proposed Korea FTA is problematic for various sectors of the U.S. textile industry. In contrast to FTA s in recent years, the Korean FTA is the first FTA since the NAFTA agreement where the country in question has a large, vertically integrated and developed textile sector which exports significant amounts of textile products to the U.S. Duty-free treatment under the proposed agreement could adversely affect the U.S. textile and apparel industries due to the fact that this FTA would give Korea a greater competitive advantage by further reducing the cost of Korean products in the U.S. Korea is already the sixth largest exporter of textile products to the U.S. market and the fourth largest exporter of textile products in the world. Although passage of the agreement does not look likely in 2011, the U.S. textile industry is currently working with the U.S. Trade Office and the Administration to address its concerns with the Korea FTA.

The Company has significant foreign operations and its results of operations may be adversely affected by the risks associated with doing business in foreign locations.

The Company has operations in Brazil, China, Colombia, El Salvador and a joint venture in Israel. The Company serves customers in Canada, Mexico, Israel and various countries in Europe, Central America, South America, Africa, and Asia. Foreign operations are subject to certain political, economic and other uncertainties not encountered by its domestic operations that can materially affect our supply chain, or other aspects of our foreign operations. The risks of international operations include trade barriers, duties, exchange controls, national and regional labor strikes, social and political unrest, general economic risks, required compliance with a variety of foreign laws, including tax laws, the difficulty of enforcing agreements and collecting receivables through foreign legal systems, taxes on distributions or deemed distributions to the Company or any of its U.S. subsidiaries, maintenance of minimum capital requirements and import and export controls.

Through its subsidiaries, the Company is subject to the tax laws of many jurisdictions. Changes in tax laws or the interpretation of tax laws can affect the Company s earnings, as can the resolution of various pending and contested tax issues. In most jurisdictions, the Company regularly has audits and examinations by the designated tax authorities, and additional tax assessments are common.

Through its foreign operations, the Company is also exposed to currency fluctuations and exchange rate risks. Because a significant amount of its costs incurred to generate the revenues of its foreign operations are denominated in local currencies, while the majority of its sales are in U.S. dollars, the Company has in the past been adversely impacted by the appreciation of the local currencies relative to the U.S. dollar, and currency exchange rate fluctuations could have a material adverse effect on its business, financial condition, results of operations or cash flows. The Company has translated its revenues and expenses denominated in local currencies into U.S. dollars at the average exchange rate during the relevant period and its assets and liabilities denominated in local currencies into U.S. dollars at the exchange rate at the end of the relevant period. Fluctuations in the foreign exchange rates will affect period-to-period comparisons of its reported results. Additionally, the Company operates in countries with foreign exchange controls. These controls may limit its ability to repatriate funds from its international operations and joint ventures or otherwise convert local currencies into U.S. dollars. These limitations could adversely affect the Company s ability to access cash from these operations.

Unifi do Brazil receives significant economic assistance benefits through sales of its product in Brazil. If these benefits are significantly reduced or repealed, it would have a material adverse effect on the Company s profitability and cash flows.

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

A significant portion of the Company s net sales is derived from a relatively small number of customers. The Company s top ten customers constitute approximately 31% of total net sales in fiscal year 2010 with sales to HBI making up approximately 9.8% of the total net sales. The Company expects to continue to depend upon its principal customers for a significant portion of its sales, although there can be no assurance that the Company s principal customers will continue to purchase products and services at current levels, if at all. The loss of one or more major customers or a change in their buying patterns could have a material adverse effect on the Company s business, financial condition and results of operations.

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

The Company is currently implementing various strategic business initiatives. The development and implementation of these initiatives requires financial and management commitments outside of day-to-day operations. These commitments could have a significant impact on the Company s operations and profitability, particularly if the initiatives prove to be unsuccessful. Moreover, if the Company is unable to implement an initiative in a timely manner, or if those initiatives turn out to be ineffective or are executed improperly, the Company s business and operating results would be adversely affected.

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

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

- its high level of indebtedness could make it more difficult for the Company to satisfy its obligations with respect to its outstanding notes, including its repurchase obligations;
- the restrictions imposed on the operation of its business may hinder its ability to take advantage of strategic opportunities to grow its business;
- its ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired;
- the Company must use a substantial portion of its cash flow from operations to pay interest on its indebtedness, which will reduce the funds available to the Company for operations and other purposes;
- its high level of indebtedness could place the Company at a competitive disadvantage compared to its competitors that may have proportionately less debt;
- its flexibility in planning for, or reacting to, changes in its business and the industry in which it operates may be limited; and
- its high level of indebtedness makes the Company more vulnerable to economic downturns and adverse developments in its business.

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

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

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

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

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

- incur and guarantee indebtedness or issue preferred stock;
- repay subordinated indebtedness prior to its stated maturity;
- pay dividends or make other distributions on or redeem or repurchase the Company s stock;

issue capital stock;

make certain investments or acquisitions;

create liens;

sell certain assets or merge with or into other companies;

enter into certain transactions with stockholders and affiliates; and

restrict dividends, distributions or other payments from its subsidiaries.

These restrictions could limit its ability to plan for or react to market conditions or meet its capital needs. The Company may not be granted waivers or amendments to its First Amended Credit Agreement if for any reason the Company is unable to meet its requirements or the Company may not be able to refinance its debt on terms that are acceptable, or at all.

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

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

The Company has established joint ventures and made minority interest investments designed, among other things, to increase its vertical integration, increase efficiencies in its procurement, manufacturing processes, marketing and distribution in the U.S. and other markets. The Company s inability to control entities in which it invests may affect its ability to receive distributions from those entities or to fully implement its business plan. The incurrence of debt or entry into other agreements by an entity not under its control may result in restrictions or prohibitions on that entity s ability to pay dividends or make other distributions. Even where these entities are not restricted by contract or by law from making distributions, the Company may not be able to influence the occurrence or timing of such distributions. In addition, if any of the other investors in these entities fails to observe its commitments, that entity may not be able to operate according to its business plan or the Company may be required to increase its level of commitment. If any of these events were to occur, its business, results of operations, financial condition or cash flows could be adversely affected. Because the Company does not own a majority or maintain voting control of these entities, the Company does not have the ability to control their policies, management or affairs. The interests of persons who control these entities or partners may differ from the Company s, and they may cause such entities to take actions which are not in its best interest. If the Company is unable to maintain its relationships with its partners in these entities, the Company could lose its ability to operate in these areas which could have a material adverse effect on its business, financial condition, results of operations or cash flows.

The Parkdale America, LLC joint venture may lose Economic Adjustment Assistance to Users of Upland Cotton which could adversely affect the Company s investment income and cash flows.

One of the Company s joint ventures, Parkdale America, LLC (PAL), receives economic adjustment payments (EAP) from the Commodity Credit Corporation under the Economic Assistance program to Users of Upland Cotton, Subpart C of the 2008 Farm Bill. The program provides textile mills a subsidy of four cents per pound on eligible upland cotton consumed during the first four years and three cents per pound for the last six years of the program. The economic assistance received under this program must be used to acquire, construct, install, modernize, develop, convert or expand land, plant, buildings, equipment, or machinery. Capital expenditures must be directly attributable to the purpose of manufacturing upland cotton into eligible cotton products in the U.S. Since August 1, 2008, PAL has received $36.6 million of economic assistance under the program and in accordance with the program provisions, recognized $23.2 million as operating income. Should PAL no longer meet the criteria to receive economic assistance under the program, PAL s income would significantly decline resulting in an adverse impact to the Company s profitability and cash flows.

Compliance with environmental and other regulations could require significant expenditures.

The Company is subject to various federal, state, local and foreign laws and regulations that govern our activities, operations and products that may have adverse environmental, health and safety effects, including laws and regulations relating to generating emissions, water discharges, waste, product and packaging content and workplace safety. Noncompliance with these laws and regulations may result in substantial monetary penalties and criminal sanctions. Future events that could give rise to manufacturing interruptions or environmental remediation include changes in existing laws and regulations, the enactment of new laws and regulations, a release of hazardous substances on or from our properties or any associated offsite disposal location, or the discovery of contamination from current or prior activities at any of our properties. While the Company is not aware of any proposed regulations or remedial obligations that could trigger significant costs or capital expenditures in order to comply, any such regulations or obligations could adversely affect our business, results of operations, financial condition and cash flows.

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

The Company assesses the impairment of the Company s long-lived assets, such as plant and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable as measured by the sum of the expected future undiscounted cash flows. When the Company determines that the carrying value of certain long-lived assets may not be recoverable based upon the existence of one or more impairment indicators, the Company then measures any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in its current business model. Any such impairment charges will be recorded as operating losses. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Company s consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further discussion of impairment charges.

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

Any operating losses resulting from impairment charges could have an adverse effect on the Company s operating results and therefore the market price of its securities, including its common stock.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Following is a summary of principal properties owned or leased by the Company as of June 27, 2010:

Location	Description
Polyester Segment Properties:	
Domestic:	
Yadkinville, NC	Four plants and three warehouses
Reidsville, NC	One plant
Mayodan, NC	One plant
Cooleemee, NC	One warehouse
Foreign:	
Alfenas, Brazil	One plant and one warehouse
Sao Paulo, Brazil	One corporate office and two sales offices
Suzhou, China	One leased sales office
Ciudad Arce, El Salvador	One plant
Nylon Segment Properties:	
Domestic	
Madison, NC	One plant and one warehouse
Fort Payne, AL	One central distribution center
Foreign:	
Bogota, Colombia	One plant

As of June 27, 2010, the Company owns 4.4 million square feet of manufacturing, warehouse and office space.

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

Included in the above table are facilities that the Company leases including one warehouse, one plant, one corporate office, and two sales offices. The remaining facilities are owned in fee simple. Management believes all of its operating properties are well maintained and in good condition. In fiscal year 2010, the Company s manufacturing plants in the U.S. operated at or near capacity while its Brazilian operation operated below capacity. UCA will not be fully operational until the second quarter of fiscal year 2011, but once fully operational will provide the Company with approximately 10% additional polyester textured yarn capacity in that region. Accordingly, management does not perceive any capacity constraints in the foreseeable future.

Item 3. Legal Proceedings

There are no pending legal proceedings, other than ordinary routine litigation incidental to the Company s business, to which the Company is a party or of which any of its property is the subject.

Item 4. [Removed and Reserved]

EXECUTIVE OFFICERS OF THE COMPANY

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

President and Chief Executive Officer

WILLIAM L. JASPER Age: 57 Mr. Jasper has been the Company s President and Chief Executive Officer since September 2007. Prior to September 2007, he was the Vice President of Sales from April 2006 to September 2007. Prior to April 2006, Mr. Jasper was the General Manager of the Polyester segment, having responsibility for all natural polyester businesses. Mr. Jasper joined the Company in September 2004 with the purchase of the Kinston polyester POY assets from INVISTA, which was previously known as DuPont Textiles and Interiors, a subsidiary of DuPont, before it was spun off and acquired by Koch Industries. Prior to joining the Company, he was the Director of INVISTA s Dacron® polyester filament business. Before working at INVISTA, Mr. Jasper held various management positions in operations, technology, sales and business for DuPont since 1980. He has been a director since September 2007 and is a member of the Company s Executive Committee.

Vice Presidents

RONALD L. SMITH Age: 42 Mr. Smith has been Vice President and Chief Financial Officer of the Company since October 2007. He was appointed Vice President of Finance and Treasurer in September 2007. Prior to that, Mr. Smith held the position of Treasurer and had additional responsibility for Investor Relations from May 2005 to October 2007 and was the Vice president of Finance, Unifi Kinston, LLC from September 2004 to April 2005. Mr. Smith joined the Company in 1994 and has held positions as Controller, Chief Accounting Officer and Director of Business Development and Corporate Strategy.

R. ROGER BERRIER Age: 41 Mr. Berrier has been the Executive Vice President of Sales, Marketing and Asian Operations of the Company since September 2007. Prior to that, he had been the Vice President of Commercial Operations since April 2006 and the Commercial Operations Manager responsible for corporate product development, marketing and brand sales management from April 2004 to April 2006. Mr. Berrier joined the Company in 1991 and has held various management positions within operations, including international operations, machinery technology, research and development and quality control. He has been a director since September 2007 and is a member of the Company s Executive Committee.

THOMAS H. CAUDLE, JR. Age: 58 Mr. Caudle has been the Vice President of Manufacturing since October 2006. He was the Vice President of Global Operations of the Company from April 2003 until October 2006. Prior to that, Mr. Caudle had been Senior Vice President in charge of manufacturing for the Company since July 2000 and Vice President of Manufacturing Services of the Company since January 1999. Mr. Caudle has been an employee of the Company since 1982.

CHARLES F. MCCOY Age: 46 Mr. McCoy has been the Vice President, Secretary and General Counsel of the Company since October 2000, the Corporate Compliance Officer since 2002, the Corporate Governance Officer of the Company since 2004, and Chief Risk Officer since July 2009. Mr. McCoy has been an employee of the Company since January 2000, when he joined the Company as Corporate Secretary and General Counsel.

Each of the executive officers was elected by the Board of the Company at the Annual Meeting of the Board held on October 28, 2009. Each executive officer was elected to serve until the next Annual Meeting of the Board or until his successor was elected and qualified. No executive officer has a family relationship as close as first cousin with any other executive officer or director.

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PART II

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

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

	High	Low
Fiscal year 2009:		
First quarter ended September 28, 2008	$ 4.99	$ 2.38
Second quarter ended December 28, 2008	5.43	2.02
Third quarter ended March 29, 2009	3.00	0.44
Fourth quarter ended June 28, 2009	1.83	0.55
Fiscal year 2010:		
First quarter ended September 27, 2009	$ 3.69	$ 1.22
Second quarter ended December 27, 2009	3.78	2.70
Third quarter ended March 28, 2010	4.10	3.16
Fourth quarter ended June 27, 2010	4.37	3.30

As of September 1, 2010, there were 406 record holders of the Company s common stock. A significant number of the outstanding shares of common stock which are beneficially owned by individuals and entities are registered in the name of Cede & Co. Cede & Co. is a nominee of the Depository Trust Company, a securities depository for banks and brokerage firms. The Company estimates that there are approximately 4,100 beneficial owners of its common stock.

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

Purchases of Equity Securities

Effective July 26, 2000, the Board authorized the repurchase of up to 10.0 million shares of its common stock of which approximately 3.2 million shares were subsequently repurchased. The repurchase program was suspended in November 2003 and the Company has no immediate plans to reinstitute the program. 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.

On November 25, 2009, the Company agreed to purchase 1,885,000 shares of its common stock at a purchase price of $2.65 per share from Invemed Catalyst Fund, L.P. (based on an approximate 10% discount to the closing price of the common stock on November 24, 2009). The transaction closed on November 30, 2009 at a total purchase price of $5 million. The purchase of the shares pursuant to the transaction was not pursuant to the repurchase plan as discussed above and does not reduce the remaining authority thereunder.

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PERFORMANCE GRAPH - SHAREHOLDER RETURN ON COMMON STOCK

Set forth below is a line graph comparing the cumulative total Shareholder return on the Company s Common Stock with (i) the New York Stock Exchange Composite Index, a broad equity market index, and (ii) a peer group selected by the Company in good faith (the Peer Group), assuming in each case, the investment of $100 on June 26, 2005 and reinvestment of dividends. Including the Company, the Peer Group consists of twelve publicly traded textile companies, including Albany International Corp., Culp, Inc., Decorator Industries, Inc., Dixie Group, Inc., Hallwood Group, Inc., Hampshire Group, Limited, Interface, Inc., Joe s Jeans Inc., JPS Industries, Inc., Lydall, Inc., and Mohawk Industries, Inc.

	June 26, 2005	June 25, 2006	June 24, 2007	June 29, 2008	June 28, 2009	June 27, 2010
Unifi, Inc.	100.00	74.49	70.45	63.89	35.61	101.52
NYSE Composite	100.00	112.36	127.88	127.88	90.29	105.79
Peer Group	100.00	93.65	125.32	84.59	43.14	67.44

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Item 6. Selected Financial Data

	June 27, 2010 (52 Weeks)	June 28, 2009 (52 Weeks)	June 29, 2008 (53 Weeks)	June 24, 2007 (52 Weeks)	June 25, 2006 (52 Weeks)
	(Amounts in thousands, except per share data)				
Summary of Operations:					
Net sales	$ 616,753	$ 553,663	$ 713,346	$ 690,308	$ 738,665
Cost of sales	545,253	525,157	662,764	651,911	692,225
Restructuring charges (recoveries)	739	91	4,027	(157)	(254)
Write down of long-lived assets (1)	100	350	2,780	16,731	2,366
Goodwill impairment (2)		18,580			
Selling, general and administrative expenses	46,183	39,122	47,572	44,886	41,534
Provision for bad debts	123	2,414	214	7,174	1,256
Other operating (income) expense, net	(1,033)	(5,491)	(6,427)	(2,601)	(1,466)
Non-operating (income) expense:					
Interest income	(3,125)	(2,933)	(2,910)	(3,187)	(6,320)
Interest expense	21,889	23,152	26,056	25,518	19,266
(Gain) loss on extinguishment of debt (3)	(54)	(251)		25	2,949
Equity in (earnings) losses of unconsolidated affiliates	(11,693)	(3,251)	(1,402)	4,292	(825)
Write down of investment in unconsolidated affiliates (4)		1,483	10,998	84,742	
Income (loss) from continuing operations before income taxes	18,371	(44,760)	(30,326)	(139,026)	(12,066)
Provision (benefit) for income taxes	7,686	4,301	(10,949)	(21,769)	301
Income (loss) from continuing operations	10,685	(49,061)	(19,377)	(117,257)	(12,367)
Income from discontinued operations, net of tax		65	3,226	1,465	360
Net income (loss)	$ 10,685	$ (48,996)	$ (16,151)	$ (115,792)	$ (12,007)
Per Share of Common Stock: (basic)					
Income (loss) from continuing operations	$ .18	$ (.79)	$ (.32)	$ (2.09)	$ (.23)

Income from discontinued operations, net of tax			.05	.03	
Net income (loss)	$ .18	$ (.79)	$ (.27)	$ (2.06)	$ (.23)
Per Share of Common Stock: (diluted)					
Income (loss) from continuing operations	$ .17	$ (.79)	$ (.32)	$ (2.09)	$ (.23)
Income from discontinued operations, net of tax			.05	.03	
Net income (loss)	$ .17	$ (.79)	$ (.27)	$ (2.06)	$ (.23)
Balance Sheet Data:					
Working capital	$ 174,464	$ 175,808	$ 186,817	$ 196,808	$ 187,731
Gross property, plant and equipment	747,857	744,253	855,324	913,144	914,283
Total assets	504,465	476,932	591,531	665,953	737,148
Notes payable, long-term debt and other obligations (3)	166,253	182,707	205,855	238,222	203,791
Shareholders equity (5)	259,896	244,969	305,669	304,954	387,464

(1) The Company performs impairment testing on its long-lived assets and assets held for sale periodically, or when an event or change in market conditions indicates that the Company may not be able to recover its investment in the

long-lived asset in the normal course of business. As a result of this testing, the Company has determined certain assets had become impaired and recorded impairment charges accordingly.

(2) In the third quarter of fiscal year 2009, the Company determined that it was appropriate to test the carrying value of its goodwill based on the decline in its market capitalization and difficult market conditions. The Company updated its cash flow forecasts based upon the latest market intelligence, its discount rate and its market capitalization values. The fair value of the domestic polyester reporting unit was determined based upon a combination of

a discounted cash flow analysis and a market approach utilizing market multiples of guideline publicly traded companies. As a result of the findings, the Company determined that the goodwill was impaired and recorded an impairment charge of $18.6 million.

(3) In April 2006, the Company tendered an offer for all of its outstanding 6.5% senior unsecured notes due May, 2008. During the fourth quarter of fiscal year 2006, the Company recorded a $2.9 million charge which was a combination of fees associated with the tender offer and the write off of unamortized bond issuance costs related to the notes. During the fourth quarter of fiscal year 2009, the Company utilized $8.8 million of

restricted cash to tender at par for a portion of its 2014 notes. In addition, the Company repurchased and retired 2014 notes having a face value of $2 million in open market purchases. The net effect of the gain on this repurchase and the write-off of the respective unamortized issuance cost related to the $8.8 million and $2 million of 2014 notes resulted in a net gain of $0.3 million.

(4) In fiscal year 2007, management determined that its investment in PAL was impaired and that the impairment was considered other than temporary. As a result, the Company recorded a non-cash impairment charge of $84.7 million to reduce the carrying value of its equity investment in PAL to

$52.3 million. In fiscal year 2008, the Company determined that its investments in Unifi-SANS Technical Fibers, LLC (USTF) and Yihua Unifi Fibre Company Limited (YUFI) were impaired resulting in non-cash impairment charges of $4.5 million and $6.4 million, respectively. In fiscal year 2009, the Company recorded a non-cash impairment charge of $1.5 million to reduce its investment in YUFI in connection with selling the Company s interest in YUFI to YCFC for $9 million.

(5) There have been no cash dividends declared for the past five fiscal years.

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

Forward-Looking Statements

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

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

- the competitive nature of the textile industry and the impact of worldwide competition;
- changes in the trade regulatory environment and governmental policies and legislation;
- the availability, sourcing and pricing of raw materials;
- general domestic and international economic and industry conditions in markets where the Company competes, such as recession and other economic and political factors over which the Company has no control;
- changes in consumer spending, customer preferences, fashion trends and end-uses;
- its ability to reduce production costs;
- changes in currency exchange rates, interest and inflation rates;
- the financial condition of its customers;
- its ability to sell excess assets;

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

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

the impact of environmental, health and safety regulations;

the loss of a material customer;

employee relations;

volatility of financial and credit markets;

the continuity of the Company s leadership;

availability of and access to credit on reasonable terms; and

the success of the Company s strategic business initiatives.

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

Business Overview

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

Polyester Segment. The polyester segment manufactures partially oriented, textured, dyed, twisted and beamed yarns with sales to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, automotive, hosiery, furnishings, industrial and other end-use markets. The polyester segment primarily manufactures its products in Brazil, and the U.S., which has the Company s largest operations and number of locations. The polyester segment also includes a subsidiary in China focused on the sale and promotion of the Company s specialty and PVA products in the Asian textile market, primarily within China. The polyester segment also includes a newly established manufacturing facility in El Salvador. For fiscal years 2010, 2009, and 2008, polyester segment net sales were $453 million, $403 million, and $531 million, respectively.

Nylon Segment. The nylon segment manufactures textured nylon and covered spandex products with sales to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, hosiery, sock and other end-use markets. The nylon segment consists of operations in the U.S. and Colombia. For fiscal years 2010, 2009, and 2008, nylon segment net sales were $164 million, $151 million, and $183 million, respectively.

The Company s fiscal year is the 52 or 53 weeks ending on the last Sunday in June. Fiscal year 2008 had 53 weeks while fiscal years 2010 and 2009 had 52 weeks.

Line Items Presented

Net sales. Net sales include amounts billed by the Company to customers for products, shipping and handling, net of allowances for rebates. Rebates may be offered to specific large volume customers for purchasing certain quantities of yarn over a prescribed time period. The Company provides for allowances associated with rebates in the same accounting period the sales are recognized in income. Allowances for rebates are calculated based on sales to customers with negotiated rebate agreements with the Company. Non-defective returns are deducted from revenues in the period during which the return occurs. The Company records allowances for customer claims based upon its estimate of known claims and its past experience for unknown claims.

Cost of sales. The Company s cost of sales consists of direct material, delivery and other manufacturing costs, including labor and overhead, depreciation expense with respect to manufacturing assets, PP&E depreciation and reserves for obsolete and slow-moving inventory.

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

Recent Developments and Outlook

Despite the Company s sales revenue for fiscal year 2010 being 14% below pre-recession fiscal year 2008 sales, the Company reported its first profitable year since 2000.

Net sales for the fiscal year 2010 were $617 million, an increase of $63 million or 11% from the prior fiscal year with year-over-year increases in the domestic and Brazilian businesses of 5.6% and 14.8%, respectively. During fiscal year 2010, as domestic retail sales recovered across the Company s core markets, most notably in the apparel and leg wear segments, the Company s sales and capacity utilization improved. In addition, the Company began to see the benefit from improvements that were made to its market share and product mix along with general economic improvements.

Net income for fiscal year 2010 was $10.7 million, or 18 cents per basic share, compared to a net loss of $49 million, or 79 cents per basic share, for the prior fiscal year. The Company s profitability was primarily due to the recovery from the global recession that began in fiscal year 2009 as well as the success of several key strategic initiatives. These initiatives included regaining regional market share, continued growth in PVA products, and manufacturing efficiency improvements. Another important part of the Company s core strategy is the ability to capitalize on regional growth opportunities throughout the world. The Company s Brazilian subsidiary contributed $130 million in net sales, $27.5 million of gross profit and $24.2 million of pre-tax income to the Company s consolidated results. The Company expects the subsidiary will continue to contribute substantially to the Company s financial results given the success of the subsidiary s cost saving initiatives, the local government economic assistance and the strengthening of the Brazilian currency. See Item 1A Risk Factors The Company faces intense competition from a number of domestic and foreign yarn producers and importers of textile and apparel products for a further discussion.

The Company s China subsidiary, UTSC, reported net income of $0.6 million in fiscal year 2010. Development activities remain strong, particularly with specialty and value added products such as Repreve® which were major contributors to its volume, sales, and profitability in fiscal year 2010. The Company s office in China continues to perform well, and the Company is pleased with the strength and mix of the sales to UTSC s customers throughout Asia.

Adjusted EBITDA for fiscal year 2010 was $55.3 million which represents a $32 million improvement over fiscal year 2009 and is approximately the same as fiscal year 2008 despite net sales being $96.6 million or 13.5% lower than the pre-recession levels of 2008. The year-over-year increase in adjusted EBITDA is primarily attributable to improved gross profit in both the domestic and Brazilian operations as a result of increases in net sales and improvements in overall per unit conversion and per unit manufacturing cost. Please see Review of Fiscal Year 2010 Results of Operations (52 Weeks) Compared to Fiscal Year 2009 (52 Weeks) for further discussion of results of operations.

The Company also experienced a recovery of regional sourcing from CAFTA as imports of synthetic apparel increased by approximately 17% in the June 2010 quarter. CAFTA s share of all synthetic apparel imports has grown for three consecutive quarters and the Company expects the region to hold its share for the remainder of the year. Having a local presence in the CAFTA region, UCA allows the Company to capitalize on growth opportunities in the region and makes the Company a stronger partner for companies with split sourcing and replenishment strategies.

During the June 2010 quarter, net sales performance from the Company s domestic operations was particularly strong, increasing 25% compared to the prior June 2009 quarter. This improvement was driven by increased market share and positive market conditions in substantially all key segments. Year-over-year retail sales of apparel were up for the third consecutive quarter, increasing 5.4% compared to the prior year June 2009 quarter. Consumer spending on apparel has steadily recovered with spending in the June 2010 quarter just 2.9% below the pre-recession June 2008 quarter.

U.S. retail sales of home furnishings remain approximately 15% below pre-recession levels; however, they improved 2.5% in the June 2010 quarter compared to the same prior year quarter. In addition, U.S. automotive sales in the current quarter were 20% below levels reported in the June 2008 quarter, but U.S. automotive sales grew for the third consecutive quarter which drove an increase of approximately 76% in North American light vehicle production in the June 2010 quarter compared to the prior year June quarter.

Looking forward, the Company is cautiously optimistic about the continuation of these trends in retail sales based on recent history and market intelligence. The Company expects demand to remain stable or improve slightly for the next quarter. Nevertheless, the remainder of the calendar year will be heavily influenced by the performance of apparel retail sales during the holiday shopping seasons.

Much of the Company s success in fiscal year 2010 and its performance during the recession of 2009 can be attributed to the strength of its balance sheet. Its balance sheet focus will continue to be on cash generation coupled with an opportunistic approach to debt reduction.

Beginning in 2007, the Company initiated a culture of continuous improvement in both the creation of customer value and improvement of production efficiencies over all of the Company s operations. Over the past year, the Company expanded its efforts in manufacturing and statistical process control to all of its operations, and currently has over fifty active improvement programs, each aimed at providing measurable improvements to cost of operations and investments in working capital. The Company expects to continue these efforts through the next fiscal year. These efforts, coupled with strategic capital expenditures designed to grow its PVA product capabilities, are expected to result in continued improvement of the Company s financial performance over the next several years. This includes a capital project related to the backward supply chain integration of its 100% recycled Repreve® product. By being more vertically integrated, the Company will improve the availability of recycled raw materials and significantly increase its product capabilities and ability to compete effectively in this growing segment. This will also make the Company an even stronger partner in the development and commercialization of value added products that meet sustainability demands of today s brands and retailers.

Repreve Renewables, the Company s newest joint venture, will focus on direct sales of FREEDOM giant miscanthus to the biofuel and biopower industries. This investment is aligned with the Company s goal to derive value from sustainability-based initiatives and will not only provide a unique revenue stream, but it also helps support the Company s strategy to expand the Repreve® brand and product portfolio while enhancing its commitment to being a global leader in sustainability.

On November 25, 2009, the Company agreed to purchase 1,885,000 shares of its common stock at a purchase price of $2.65 per share from Invemed Catalyst Fund, L.P. (based on an approximate 10% discount to the closing price of the common stock on November 24, 2009). The transaction closed on November 30, 2009 at a total purchase price of $5 million.

While it continues to explore opportunities to grow and diversify its portfolio, the Company s top priority remains growing and continuously improving its core business. The Company will continue to strive to create shareholder value through mix enrichment, share gain, process improvement throughout the organization, and expanding the number of customers and programs using its value added yarns.

Key Performance Indicators

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

- sales volume, which is an indicator of demand;

- gross margin, which is an indicator of product mix and profitability;

- adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (adjusted EBITDA), which the Company defines as net income or loss before income tax expense (benefit), interest expense, depreciation and amortization expense and loss or income from discontinued operations, adjusted to exclude equity in earnings and losses of unconsolidated affiliates, write down of long-lived assets and unconsolidated affiliate, non-cash compensation expense net of distributions, executive severance charges, gains or losses on sales or disposals of property, plant and equipment (PP&E), currency and derivative gains and losses, gain on extinguishment of debt, goodwill impairment, restructuring charges, asset consolidation and optimization expense, gain from the sale of nitrogen credits, foreign subsidiary startup costs, plant shutdown expenses, and deposit write offs, as revised from time to time, which the Company believes is a supplemental measure of its operating performance and debt service capacity; and

adjusted working capital (accounts receivable plus inventory less accounts payable and accruals) as a percentage of sales, which is an indicator of the Company s production efficiency and ability to manage its inventory and receivables.

Results of Operations

	June 27, 2010 (52 Weeks)	June 28, 2009 (52 Weeks)	June 29, 2008 (53 Weeks)
		(Amounts in thousands)	
Summary of Consolidated Operations:			
Net sales	$ 616,753	$ 553,663	$ 713,346
Cost of sales	545,253	525,157	662,764
Other operating expenses, net	46,112	55,066	48,166
Non-operating expense, net	7,017	18,200	32,742
Income (loss) from continuing operations before income taxes	18,371	(44,760)	(30,326)
Provision (benefit) for income taxes	7,686	4,301	(10,949)
Income (loss) from continuing operations	10,685	(49,061)	(19,377)
Income from discontinued operations, net of tax		65	3,226
Net income (loss)	$ 10,685	$ (48,996)	$ (16,151)

Adjusted EBITDA is a financial measurement that management uses to facilitate its analysis and understanding of the Company s business operations. Management believes it is useful to investors because it provides a supplemental way to understand the underlying operating performance of the Company. The calculation of Adjusted EBITDA is a subjective measure based on management s belief as to which items should be included or excluded, in order to provide the most reasonable view of the underlying operating performance of the business. Adjusted EBITDA and adjusted working capital are not considered to be in accordance with generally accepted accounting principles (non-GAAP measure) and should not be considered a substitute for performance measures calculated in accordance with GAAP.

	June 27, 2010 (52 Weeks)	June 28, 2009 (52 Weeks)	June 29, 2008 (53 Weeks)
		(Amounts in thousands)	
Net income (loss)	$ 10,685	$ (48,996)	$ (16,151)
Interest expense, net	18,764	20,219	23,146
Depreciation and amortization expense	26,312	31,326	40,416
Provision (benefit) for income taxes	7,686	4,301	(10,949)
Income from discontinued operations, net of tax		(65)	(3,226)
Equity in earnings of unconsolidated affiliates	(11,693)	(3,251)	(1,402)
Non-cash compensation, net of distributions	2,555	1,500	359

Loss (gain) on sales or disposals of PP&E	680	(5,856)	(4,003)
Currency and derivative (gains) losses	(145)	354	(265)
Write down of long-lived assets and unconsolidated affiliates	100	1,833	13,778
Gain on extinguishment of debt	(54)	(251)	
Goodwill impairment		18,580	
Restructuring charges	739	53	4,027
Gain from sale of nitrogen credits	(1,400)		
Foreign subsidiary startup costs (1)	1,027		
Asset consolidation and optimization expense (2)		3,508	
Plant shutdown expenses		30	3,742
Executive severance charges			4,517
Deposit write offs (3)			1,248
Adjusted EBITDA	$ 55,256	$ 23,285	$ 55,237