UNIFI INC
Form DEF 14A
September 18, 2008

Schedule 14A
(Rule 14A-101)
Information Required In Proxy Statement
SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO.)

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Under Rule 14a-12

UNIFI, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

PAYMENT OF FILING FEE (Check the appropriate box):
þ No fee required
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

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PROVIDING INNOVATIVE FIBERS AND COMPETITIVE SOLUTIONS®

7201 West Friendly Avenue
Greensboro, North Carolina 27410

September 18, 2008

To The Shareholders Of
Unifi, Inc.

The Annual Meeting of Shareholders of your Company will be held at 9:00 A.M. Eastern Daylight Savings Time on Wednesday, October 29, 2008, at the Company s corporate headquarters at 7201 West Friendly Avenue, Greensboro, North Carolina.

Pursuant to new rules promulgated by the Securities and Exchange Commission, we are providing access to our proxy materials over the Internet. On or about September 18, 2008 we will mail a Notice of Internet Availability of Proxy Materials (the Notice) to our Shareholders of record and beneficial owners at the close of business on September 10, 2008. On the date of mailing of the Notice, all Shareholders and beneficial owners will have the ability to access all of the proxy materials on a website referred to in the Notice. These proxy materials will be available free of charge.

Detailed information relating to the Company s activities and operating performance is contained in its Annual Report on Form 10-K for the fiscal year ended June 29, 2008, which is available over the Internet as described in the Notice.

You are cordially invited to attend the Annual Meeting of Shareholders in person. Even if you choose to attend in person, you are encouraged to review the proxy materials and vote your shares in advance of the meeting by Internet. The Notice will contain instructions to allow you to request copies of the proxy materials to be sent to you by mail. Any proxy materials sent to you will include a proxy card that will provide you with a telephone number you may call to cast your vote, or you may complete, sign and return the proxy card by mail. Your vote is extremely important and we appreciate your taking the time to vote promptly.

Sincerely,

William L. Jasper
President and Chief Executive Officer

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PROVIDING INNOVATIVE FIBERS AND COMPETITIVE SOLUTIONS®

7201 West Friendly Avenue
Greensboro, North Carolina 27410

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON OCTOBER 29, 2008

To The Shareholders of Unifi, Inc.:

The Annual Meeting of Shareholders of Unifi, Inc. (the Company) will be held at the Company s corporate headquarters at 7201 West Friendly Avenue, Greensboro, North Carolina, on Wednesday, October 29, 2008 at 9:00 A.M. Eastern Daylight Savings Time, for the following purposes:

1. To elect ten (10) directors to serve until the next Annual Meeting of Shareholders or until their respective successors are duly elected and qualified.

2. To approve the 2008 Unifi, Inc. Long-Term Incentive Plan.

3. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The Board of Directors, under the provisions of the Company s By-Laws, has fixed the close of business on September 10, 2008, as the record date for determination of Shareholders entitled to notice of and to vote at the Annual Meeting of Shareholders or any adjournment or adjournments thereof. The transfer books of the Company will not be closed.

YOUR VOTE IS IMPORTANT. We appreciate your taking the time to vote promptly. After reading the Proxy Statement, please vote at your earliest convenience by Internet, or request that proxy materials be sent to you by mail. If you request the proxy materials by mail, included therewith will be a proxy card with a telephone number you may call to cast your vote, or you may complete, sign and return the proxy card by mail.

YOUR SHARES CANNOT BE VOTED UNLESS YOU VOTE (I) BY INTERNET, (II) REQUEST PROXY MATERIALS BE SENT TO YOU THAT WILL INCLUDE A PROXY CARD WITH A TELEPHONE NUMBER YOU MAY CALL TO CAST YOUR VOTE, OR YOU MAY COMPLETE, SIGN AND RETURN THE PROXY CARD BY MAIL, OR (III) ATTEND THE ANNUAL MEETING AND VOTE IN PERSON.

By Order Of The Board Of Directors:

Charles F. McCoy
Vice President, Secretary and General Counsel

Greensboro, North Carolina
September 18, 2008

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PROVIDING INNOVATIVE FIBERS AND COMPETITIVE SOLUTIONS®

7201 West Friendly Avenue
Greensboro, North Carolina 27410

PROXY STATEMENT

SOLICITATION OF PROXIES

This solicitation of the enclosed proxy is made by the Board of Directors (the Board) of Unifi, Inc. (the Company) for use at the Annual Meeting of Shareholders to be held Wednesday, October 29, 2008, at 9:00 A.M. Eastern Daylight Savings Time, at the Company s corporate headquarters located at 7201 West Friendly Avenue, Greensboro, North Carolina, or at any adjournment or adjournments thereof (the Annual Meeting).

In accordance with rules and regulations recently adopted by the Securities and Exchange Commission (the SEC), instead of mailing a printed copy of our proxy materials to each Shareholder of record, the Company is now furnishing proxy materials on the Internet. If you received a Notice of Internet Availability of Proxy Materials (the Notice) by mail, you will not receive a printed copy of the proxy materials other than as described herein. Instead, the Notice will instruct you as to how you may access and review all of the important information contained in the proxy materials. The Notice also instructs you as to how you may submit your proxy over the Internet. If you received a Notice by mail and would like to receive a printed copy of our proxy materials or vote by telephone, you should follow the instructions for requesting proxy materials included in the Notice.

It is anticipated that the Notice will be sent to Shareholders on or about September 18, 2008. The Proxy Statement and the form of proxy relating to the Annual Meeting will be made available to Shareholders on the date that the Notice is first sent.

The proxy may be revoked in writing by the person giving it at any time before it is exercised either by notice to the Secretary or by submitting a proxy having a later date, or it may be revoked by such person by appearing at the Annual Meeting and electing to vote in person. All shares represented by valid proxies received pursuant to this solicitation, and not revoked before they are exercised, will be voted in the manner specified therein. If no specification is made with respect to the matter to be acted upon, the shares represented by the proxies will be voted (i) in favor of electing as directors of the Company the ten (10) nominees for director named in this Proxy Statement, (ii) to approve the 2008 Unifi, Inc. Long-Term Incentive Plan and (iii) in the discretion of the proxy holder on any other matters presented at the Annual Meeting.

The expense of this solicitation will be borne by the Company. Solicitations of proxies may be made in person, by mail or by telephone, telegraph or electronic means by directors, officers and regular employees of the Company who will not be specially compensated in such regard. In addition, the Company has retained D. F. King & Company to assist in the solicitation of proxies and will pay such firm a fee estimated not to exceed $8,500 plus reimbursement of expenses. Arrangements will be made with brokers, nominees and fiduciaries to send proxies and proxy materials, at the Company s expense, to their principals.

The Company s common stock (the Common Stock), par value $.10 per share is the only class of stock of the Company. Only Shareholders of record, as of the close of business on September 10, 2008 (the Record Date), will be entitled to notice of and to vote at the Annual Meeting or any adjournment thereof. As of the Record Date, the Company had outstanding 61,557,600 shares of its Common Stock. Each share of the Common Stock entitles the holder to one vote with respect to each matter coming before the Annual Meeting and all such shares vote as a single class.

VOTING OF SHARES

The holders of a majority of the outstanding shares entitled to vote, present in person or represented by proxy at this meeting, will constitute a quorum for the transaction of business. New York law and the Company s By-Laws require the presence of a quorum at annual meetings of Shareholders. Abstentions and broker non-votes are counted

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as present for purposes of determining a quorum. A broker non-vote occurs when a bank, broker or other holder of record holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

If your shares are held in street name and you do not give instructions as to how you want your shares voted, the bank, broker or other nominee who holds the Company s shares on your behalf may, in certain circumstances, vote the shares at its discretion. However, such bank, broker or other nominee is not required to vote the shares of Common Stock and in some instances is prohibited from doing so.

With respect to routine matters, such as the election of directors, a bank, broker or other nominee has authority (but is not required) under the rules of the New York Stock Exchange (NYSE), to vote a client s shares if a client does not provide instructions. When a bank, broker or other nominee votes its clients shares on routine matters without receiving voting instructions, these shares are counted both for establishing a quorum to conduct business at the meeting and in determining the number of shares voted for , or against such routine matters.

With respect to non-routine matters, a bank, broker or other nominee is not permitted under the NYSE rules to vote its clients shares if the clients do not provide instructions. The bank, broker or other nominee will so note on the vote card, and this constitutes a broker non-vote. Broker non-votes will be counted for purposes of establishing a quorum to conduct business at the meeting but not for determining the number of shares voted for , against or abstaining from such non-routine matters.

Accordingly, if you do not vote your proxy, your brokerage firm, bank or other nominee may either: (i) vote your shares on routine matters and cast a broker non-vote on non-routine matters, or (ii) leave your shares unvoted altogether.

Each share represented is entitled to one vote on all matters properly brought before the Annual Meeting. Directors will be elected by a plurality of the votes cast by the Shareholders at a meeting in which a quorum is present. The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to approve the Plan. Therefore, shares not voted and broker non-votes will have no affect on the election of directors, but shares which abstain from the approval of the 2008 Unifi, Inc. Long-Term Incentive Plan, will have the same effect as a vote against such proposal.

INFORMATION RELATING TO PRINCIPAL SECURITY HOLDERS

The following table sets forth information, as of September 5, 2008, with respect to each person known or believed by the Company to be the beneficial owner of more than five percent (5%) of the Common Stock. The nature of beneficial ownership of the shares indicated is set forth in the notes following the table.

Name and Address of Beneficial Owner	*Amount and Nature Beneficially Owned(1)*	*Percent of Class*
Dillon Yarn Corporation(2) 55 East 34th Street Patterson, NJ 07514	5,555,555	9.02%
Dimensional Fund Advisors LP(3) 1299 Ocean Avenue Santa Monica, CA 90401	4,978,317	8.09%
William M. Sams(4)	4,520,000	7.34%

750 North St. Paul, Suite 1650 Dallas, TX 75201		
Stephen Wener(5) 53 East 34th Street Patterson, NJ 07514	5,688,205	9.23%

(1) Beneficial Ownership, for purposes of the table, is determined according to the meaning of applicable securities regulations and based on a review of reports filed with the SEC pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act).

(2) As indicated in its Schedule 13D, filed January 16, 2007, Dillon Yarn Corporation (Dillon), a textile manufacturer and distributor, beneficially owned 8,333,333 shares by virtue of having sole voting and dispositive power

over such shares. Subsequent to this filing, 2,777,778 of these shares were sold by Dillon. As a result, Dillon may be deemed to beneficially own 5,555,555 shares by virtue of having sole voting and dispositive power over such shares.

(3) As indicated in its Schedule 13G/A, filed February 6, 2008, Dimensional Fund Advisors Inc., an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, may be deemed to beneficially own 4,978,317 shares by virtue of having sole voting and dispositive power over such shares.

(4) As indicated in a Form 4, filed May 12, 2008, includes 200,000 shares owned by Marlin Sams Fund L.P, which Mr. Sams is a General Partner of and has investment authority over and which Mr. Sams disclaims ownership of, 10,000 shares that Mr. Sams would have the right to purchase pursuant to stock options that could become exercisable within 60 days of September 1, 2008, provided that the closing price of the Company s Common Stock as listed on the NYSE shall be at least $8.00 per share for 30 consecutive days, and 10,000 shares that Mr. Sams would have the right to purchase pursuant to stock options that could become exercisable within 60 days of September 1, 2008, provided that the closing price of the Company s Common Stock as listed on the NYSE shall be at least $10.00 per share for 30 consecutive days, as to which he would have sole voting and investment power upon acquisition.

(5) As indicated in a Form 4, filed February 19, 2008, includes 5,555,555 shares owned by Dillon, in which Mr. Wener owns 23% and his wife owns 2%, of which Mr. Wener has shared voting and investment power, and 10,000 shares that Mr. Wener would have the right to purchase pursuant to stock options that could become exercisable within 60 days of September 5, 2008, provided that the closing price of the Company s Common Stock as listed on the NYSE shall be at least $8.00 per share for 30 consecutive days, and 10,000 shares that Mr. Wener would have the right to purchase pursuant to stock options that could become exercisable within 60 days of September 5, 2008, provided that the closing price of the Company s Common Stock as listed on the NYSE shall be at least $10.00 per share for 30 consecutive days, as to which he would have sole voting and investment power upon acquisition.

ELECTION OF DIRECTORS

General Information

The Board presently is fixed at ten (10) members. All the nominees for election are presently serving as directors and have consented to be named in this Proxy Statement and to serve, if elected. Although the Board expects that each of the nominees will be available for election, in the event a vacancy in the slate of nominees is occasioned by death or other unexpected occurrence, it is intended that shares represented by proxies in the accompanying form will be voted for the election of a substitute nominee selected by the person named in the proxy.

Set forth below is the name of each of the ten (10) nominees for election to the Board, together with his age, current principal occupation (which has continued for at least the past five years unless otherwise indicated), the name and principal business of the company by which he is employed, if applicable, the period or periods during which he has served as director, all positions and offices that he holds with the Company and his directorships in other companies with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act or companies registered as an investment company under the Investment Company Act of 1940.

NOMINEES FOR ELECTION AS DIRECTORS

WILLIAM J. ARMFIELD, IV, *(73)* *Mr. Armfield has been the President of Spotswood Capital, LLC, Greensboro, North Carolina, a private investment company since 1995.* Mr. Armfield was a director and President of Macfield, Inc., a textile company in North Carolina, from 1970 until August 1991, when Macfield, Inc. merged with and into Unifi, Inc. Mr. Armfield was the Vice Chairman and a director of the Company from 1991 to December 1995. Mr. Armfield again became a director of the Company in 2001, and is a member of the Company s Audit Committee (Chair), Corporate Governance and Nominating Committee and Compensation Committee. Mr. Armfield serves as the Audit Committee financial expert.

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R. ROGER BERRIER, JR., *(39) Mr. Berrier has been the Executive Vice President of Sales, Marketing and Asian Operations of the Company since September 2007.* Prior to that, he had been the Vice President of Commercial Operations since April 2006 and the Commercial Operations Manager responsible for corporate product development, marketing and brand sales management from April 2004 to April 2006. Mr. Berrier joined the Company in 1991 and has held various management positions within operations, including international operations, machinery technology, research & development and quality control. He has been a director since September 2007 and is a member of the Company s Executive Committee.

ARCHIBALD COX, JR., *(68) Mr. Cox has been the Chairman of Barclays Americas since May 2008.* He was Chairman of Neo Material Technologies Inc. a manufacturer of rare earth, zirconium and magnetic materials, from September 2005 to September 2006. Mr. Cox was the President and Chief Executive Officer of Magnequench, Inc., a manufacturer of magnetic material, from October 1995 to August 2005, and was the Chairman of Manequench from September 2005 to September 2006. Mr. Cox is the Chairman of Sextant Group, Inc. and a director of Hutchinson Technology Incorporated. Mr. Cox has been a director of the Company since February 2008, and is a member of the Company s Audit Committee.

WILLIAM L. JASPER, *(55) Mr. Jasper has been the Company s President and Chief Executive Officer since September 2007.* He had been the Vice President of Sales since 2006. Prior to that, Mr. Jasper was the General Manager of the Polyester segment, having responsibility for all natural polyester businesses. He joined the Company with the purchase of the Kinston polyester POY assets from INVISTA, which was previously known as DuPont Textiles and Interiors, a subsidiary of E.I. du Pont de Nemours and Co. (DuPont), before it was spun off and acquired by Koch Industries, in September 2004. Prior to joining the Company, he was the Director of INVISTA s Dacron® polyester filament business. Before working at INVISTA, Mr. Jasper held various management positions in operations, technology, sales and business for DuPont since 1980. He has been a director since September 2007 and is a member of the Company s Executive Committee.

KENNETH G. LANGONE, *(72) Mr. Langone has been the President and Chief Executive Officer of Invemed Associates, LLC, an investment banking firm, New York, New York, since 1974.* Mr. Langone is also a director of ChoicePoint Inc. and YUM! Brands, Inc. Mr. Langone has been a director of the Company since 1969, and is a member of the Company s Corporate Governance and Nominating Committee (Chair).

CHIU CHENG ANTHONY LOO, *(56) Mr. Loo has been the Managing Director of Rio Tinto China and Rio Tinto Asia, subsidiaries of Rio Tinto Plc, a mining company, since July 2004.* Prior to joining Rio Tinto, Mr. Loo was the China General Manager in Shanghai, People s Republic of China, for INVISTA. He has been a director of the Company since April 2007, and is a member of the Company s Corporate Governance and Nominating Committee and Compensation Committee.

GEORGE R. PERKINS, JR., *(68) Mr. Perkins is the Chairman of the Board and Chief Executive Officer of Frontier Spinning Mills, Inc., a company that he founded in 1996.* Prior to founding Frontier, Mr. Perkins served from 1993 to 1996 as President of the spun yarns division of the Company and was a member of the Board. Mr. Perkins is a director of First Bancorp. He has currently been a director of the Company since August 2007, and is a member of the Company s Compensation Committee.

WILLIAM M. SAMS, *(70) Mr. Sams was the President and Chief Investment Officer of FPA Paramount Fund, Inc., as well as the Executive Vice President of both First Pacific Advisors, Inc. and FPA Perennial Fund, Inc. from 1981 until he retired in 2000.* Mr. Sams is a director of America s Car-Mart, Inc. He has been a director of the Company and has served as the independent Lead Director of the Board since April 2007, and is a member of the Company s Corporate Governance and Nominating Committee, Audit Committee and Compensation Committee (Chair).

G. ALFRED WEBSTER, *(60) Mr. Webster was an Executive Vice President of the Company, and had been an officer of the Company from 1979 through his retirement in 2003, and a director from 1986 until October 2004.* Mr. Webster is a director of New Bridge Bank Corporation (formerly Lexington State Bank). He has been a director of the Company since August 2007, and is a member of the Company s Corporate Governance and Nominating Committee, Audit Committee and Executive Committee (Chair).

STEPHEN WENER, *(65) Mr. Wener has served as the President and Chief Executive Officer of Dillon since 1980.* The Dillon polyester and nylon texturing operations were purchased by the Company on January 1, 2007. He has also been Executive Vice President of American Drawtech Company, Inc. since 1992 and is a director of Titan Textile

Canada, Inc. He has been a director of the Company since May 2007 and served as acting Chief Executive Officer of the Company from August 1, 2007 through September 26, 2007. Since August 1, 2007, Mr. Wener has served as the Chairman of the Board of Directors and is a member of the Company s Executive Committee.

No director has a family relationship as close as first cousin with any other director, nominee for director or executive officer of the Company.

The Board recommends that the Shareholders vote to elect all of the nominees as directors.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The following is a report of the Compensation Committee describing the compensation policies applicable to the Company s executive officers during the fiscal year ended June 29, 2008. The current members of the Compensation Committee are William M. Sams, who is the Committee Chair, William J. Armfield, IV, Chiu Cheng Anthony Loo and George R. Perkins, Jr. All of the members of the Compensation Committee are independent.

Compensation Discussion and Analysis

The Compensation Committee has reviewed and discussed the Company s Compensation Discussion and Analysis with management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company s definitive Proxy Statement on Schedule 14A for its 2008 Annual Meeting, which is incorporated by reference in the Company s Annual Report on Form 10-K for the fiscal year ended June 29, 2008, each as filed with the SEC.

Submitted by the Compensation Committee of the Board:

William M. Sams, Chairman
William J. Armfield, IV
Chiu Cheng Anthony Loo
George R. Perkins, Jr.

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COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy, Principles and Policies

The Company s executive compensation program is designed to attract executives with the requisite skills necessary to support our strategic objectives, to reward executives for the achievement of near-term and long-term goals, and to retain executives by aligning compensation with the longer-term creation of Shareholder value through developing a sustainable business with consistent performance. The Compensation Committee has developed an executive compensation policy that is primarily based upon the practice of pay-for-performance. Therefore, the focus of the Compensation Committee and the Company s executive compensation program is to ensure that an appropriate relationship exists between executive pay and the creation of Shareholder value, while at the same time enabling the Company to attract, retain, reward and motivate high caliber employees. The Compensation Committee monitors the results of its executive compensation policy to ensure that compensation payable to executive officers creates proper incentive to enhance Shareholder value, rewards superior performance, and is justified by returns available to Shareholders.

In establishing compensation for the named executive officers (the NEOs) the following are the Compensation Committee s objectives:

- All components of executive compensation should be set so that the Company can continue to attract, retain, reward and motivate talented and experienced executives;
- Ensure executive compensation is aligned with the Company s corporate strategies, business objectives and the long-term interests of the Shareholders;
- Increase the incentive to achieve key strategic and financial performance measures by linking incentive award opportunities to the achievement of performance goals in these areas; and
- Enhance the NEOs incentive to increase the Company s long-term value, as well as promote retention of key personnel, by providing a portion of total compensation opportunities for senior management in the form of direct ownership in the Company through stock ownership.

The Compensation Committee reviews all components of the NEOs compensation. The Compensation Committee also monitors the compensation levels in general for all other senior level employees of the Company. In addition, the Compensation Committee has the discretion to hire compensation and benefits consultants to assist in developing and reviewing overall executive compensation strategies.

Overview of Compensation Components

The Compensation Committee views executive compensation in four component parts: base salary, annual incentive compensation, long-term incentive compensation and other personal benefits. A brief description of each of these components is provided below, together with a summary of its objectives:

Compensation Element	*Description*	*Objective*
Base Salary	Fixed compensation that is usually increased annually based on performance.	To provide a base level of compensation that fairly accounts for the job and scope of the role being performed. To attract, retain, reward and motivate qualified and experienced executives.
Annual Incentive Compensation	Variable compensation earned based on performance against pre-established annual goals.	To provide incentives for achieving critical annual operating goals which ultimately contributes to long-term return to Shareholders.
Long-Term Incentive Compensation	Variable compensation which is comprised of equity in the Company and participation in a Supplemental Key Employee Retirement Plan. The equity portion of the compensation is at risk because its value will vary with the value of the stock held by the Shareholders. The Supplemental Key Employee Retirement Plan provides additional retirement income beyond what is provided in the Company s standard retirement plan through a pre-set, annual contribution based on actual annual compensation.	To align the economic interests of the executives with the Shareholders by rewarding executives for stock price improvement. To promote retention (through vesting schedules).
Other Benefits and Perquisites	Broad-based benefits provided to all the Company s employees (e.g., health and group term life insurance), a retirement savings plan, and certain perquisites, including club memberships, spousal travel and a car allowance.	To provide a competitive total compensation package to attract and retain key executives.

The annual and long-term incentive portions of the executive s compensation are intended to achieve the Compensation Committee s goal of aligning the executive s interests with those of the Shareholders and with Company performance. These portions of an executive s compensation are placed at risk and are linked to the accomplishment of specific results that are designed to benefit the Shareholders and the Company, both in the long and short term. As a result, during years of excellent performance, the executives are provided the opportunity to earn a higher level of compensation and, conversely, in years of below average performance, their compensation will be limited to their base compensation levels. Finally, the annual and long-term incentive portions of the executive s compensation are designed to achieve the Compensation Committee s goal of attracting and retaining high caliber, experienced executives, through vesting schedules and deferred benefits. The Compensation Committee believes that these elements of compensation, when combined, are effective, and will continue to be effective, in achieving the overall objectives of the Company s executive compensation program.

Operation of the Compensation Committee

As described elsewhere in this Proxy Statement, the Compensation Committee is responsible for the administration and overall structure of the Company s executive compensation program. The Compensation Committee was composed of four independent directors during fiscal 2008, in accordance with the independence requirements of the NYSE Corporate Governance Standards. The Compensation Committee reviews and approves corporate goals and objectives relevant to the compensation of each NEO, evaluates each NEO s performance in light of these goals and objectives with input from the Company s Chief Executive Officer (CEO) and Chairman, and sets each NEO s compensation level based on this evaluation and consultation. The Compensation Committee also advises senior management with respect to the range of compensation to be paid to other employees of the Company, administering and making recommendations to the Board of Directors concerning benefit plans for the Company s directors, officers and employees and recommending benefit programs and future objectives and goals for the Company. For more information on the operation of the Compensation Committee, please refer to Committees of the Board of Directors.

Elements of Compensation

Base Salaries

NEOs base salaries are determined based on the historical practices of the Company, the officer s leadership and advancement of the Company s long term strategy, plans and objectives, individual performance and contribution to the Company s success, budget guidelines and assessment of the Company s financial condition. It is the intent of the Compensation Committee to maintain a close relationship between the Company s performance and the base salary component of the compensation for each NEO. No formula based salary increases were provided to the NEOs during fiscal 2008.

To aid the Compensation Committee in making its determination, the CEO provides recommendations annually to the Compensation Committee regarding the compensation of all NEOs. Generally, each NEO participates in an annual performance review with the CEO to provide input about their contributions to the Company s success for the period being assessed. The overall performance of each NEO is reviewed annually by the Compensation Committee, which then makes recommendations on the actual base salary for each NEO to the Board of Directors for approval.

For fiscal 2008, Mr. Jasper s base salary was $450,000, an increase from his fiscal 2007 base salary of 91% to reflect the increased responsibilities of Mr. Jasper s new position as President and CEO. Mr. Smith s base salary was $250,000, an increase of 43% to reflect the increased responsibilities of his new position as Chief Financial Officer (CFO). The base salary for the other NEOs, other than Mr. Caudle, were increased to reflect merit-based increases and the increased responsibilities of new positions for certain NEOs based upon the recommendation of the CEO from fiscal 2007 by approximately 63% for Mr. Berrier and 11% for Mr. McCoy.

At their July 2008 meeting, the Compensation Committee approved increases in the base salaries for certain of the NEOs. The Compensation Committee based these increases on many factors including the market data prepared by the compensation consultant and upon the recommendation of the CEO. For fiscal 2009, Mr. Jasper s base salary is $635,000, an increase from his fiscal 2008 base salary of 41% and for Mr. Smith, his base salary is $325,000, an increase from his fiscal 2008 base salary of 30%. The base salaries for each of Messrs. Berrier and McCoy were increased by 11% and 10%, respectively. Please see Compensation Discussion for Fiscal 2009 below for further information.

To retain and motivate key individuals, the Compensation Committee may, in the future, determine that it is in the best interests of the Company to negotiate total compensation packages with the Company s senior executive management that may deviate from the Company s current practices.

Annual Incentive Compensation

The Company structures its annual incentive compensation, in the form of a bonus, to reward its NEOs based on the Company s fiscal year performance. All NEOs are eligible to earn a bonus which is a predetermined percentage of their base salary (called target bonus). These targets are set by the Compensation Committee and are specific to each NEO, and have a minimum (threshold) achievement level. For fiscal 2008, the Compensation Committee established a target of $62 million of annual EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). The NEOs target bonus was based entirely on the Company s achievement of its targeted EBITDA. The Company s EBITDA is a measure of cash flow generated by the Company s business. The Company s EBITDA represents pre-tax income from continuing operations before net interest expense, depreciation and amortization expense, adjusted to exclude restructuring charges, equity in earnings and losses of unconsolidated affiliates, impairment write-downs, non-cash compensation expense, gains and losses on sales of property, plant and equipment, hedging gains and losses, and certain other special charges as determined by the Company s Compensation Committee. The Compensation Committee uses EBITDA as a measure of Company performance because the Compensation Committee believes it provides a clear indicator of cash generation. In setting the target EBITDA for fiscal 2008, the Compensation Committee considered the expected performance of the Company.

The annual incentive bonus awarded to an executive officer may be increased or decreased by the Compensation Committee as a result of the individual s performance and/or contribution to Company achievement of financial objectives. Each NEO s performance, including the CEO, is evaluated against specific financial goals prior to payment of bonus, and the final bonus payment may be adjusted relative to the achievement of those goals. The performance criteria in the annual incentive bonus program may be adjusted by either the Compensation Committee or the Board of Directors to account for unusual events, such as extraordinary transactions, asset dispositions and purchases, and merger and acquisitions if, and to the extent, either the Compensation Committee or the Board of Directors considers the effect of such events indicative of the Company s performance. Additionally, the Compensation Committee or the Board of Directors has the discretion to award additional bonus compensation even if the executive officer would not be entitled to any bonus based on the targets previously determined.

Each NEO s annual incentive compensation for fiscal 2008 was based entirely upon the Company s achievement of the EBITDA target, and his target bonus was set at 20% of his annual base salary, up to a maximum of 40% of his annual base salary. Each NEO s bonus would be adjusted on a pro rata basis upward or downward, such that an NEO would receive a bonus equal to 40% of his base salary if the Company achieved 120% of its targeted EBITDA, to 20% of his base salary if the Company achieved its EBITDA target. The NEO would not be entitled to a bonus if the Company achieved less than its EBITDA target. As a result of the Company s performance during fiscal 2008, the Company did not meet its EBITDA target.

However, the Compensation Committee determined to award each of the NEOs a bonus equal to 50% of such NEO s fiscal 2008 base salary. The Compensation Committee considered the Company s improving financial results relative to the difficult economic climate during the past fiscal year, which included a significant economic slowdown in the United States, higher than expected raw material prices, freight costs, and energy costs, and in light of these factors, determined that bonus compensation was merited.

At its meeting in July 2008, the Compensation Committee set the Company s EBITDA target for fiscal 2009 at $60 million, and set each NEO s target bonus at 50% of his annual base salary. If the Company achieved its EBITDA target, then the NEOs would be entitled to their target bonus. Furthermore, each NEO s bonus would be adjusted on a pro rata basis upward or downward, such that a NEO would receive a bonus equal to 100% of his base salary if the Company achieved 120% of its targeted EBITDA, to 25% of his base salary if the Company achieved 80% of its targeted EBITDA. The NEO would not be entitled to a bonus if the Company achieved less than 80% of its EBITDA target. Please see Compensation Discussion for Fiscal 2009 below for further information.

The Compensation Committee believes the cash portion of the annual incentive bonus provides the necessary incentives to retain, reward and motivate the executive officers for short-term strong Company performance.

Long-Term Incentive Compensation

Equity Incentives

The Compensation Committee believes that stock-based performance compensation is essential in aligning the interests of management and the Shareholders in enhancing the long-term value of the Company s equity. The 1999 Unifi, Inc. Long-term Incentive Plan (the 1999 Plan) provides for the issuance to the Company s officers and employees of shares of incentive stock options, non-qualified stock options, restricted stock awards and performance-based awards for the Company s Common Stock. These awards are granted to the Company s executive officers and other employees both to build the value of the Company, and to retain key individuals. Stock options provide incentive for the creation of Shareholder value over the long term since the full benefit of an executive officer s compensation package cannot be realized unless the Common Stock appreciates in value during the term of the option. Unless otherwise provided, options which have vested may be exercised prior to the earlier of (i) ten (10) years from the date of grant or (ii) upon the termination of employment of the participant other than by death, disability, retirement, or change of control. Restricted stock is granted from time to time to executive officers, primarily for purposes of retention. Restricted stock is subject to forfeiture and may not be disposed of by the recipient until certain restrictions established by the Compensation Committee have lapsed. Generally the Compensation Committee believes that granting stock options can be an effective tool for meeting the Company s compensation goal of increasing long-term Shareholder value by tying the value of the executive s performance compensation to the Company s Common Stock performance. Employees are able to profit from stock options only if the Company s stock price increases in value over the stock option s exercise price. Recipients of restricted stock are not required to provide consideration other than the rendering of their services.

In July 2006, the Compensation Committee established a policy providing for the grant of an annual stock option to the NEOs. The purpose of the annual grant of stock options to the NEOs is to provide the NEOs with additional incentives to remain with the Company. At its October 2007 meeting, the Compensation Committee approved a grant of options to the NEOs. The Compensation Committee based the number of shares which were granted to each NEO, other than the CEO, primarily upon the recommendation of the CEO.

The Board has approved the 2008 Unifi, Inc. Long-Term Incentive Plan, subject to approval by the Shareholders, which the Company will use to grant shares of incentive stock options, non-qualified stock options, restricted stock awards and performance-based awards for the Company s Common Stock to the Company s officers and employees. If the 2008 Unifi, Inc. Long-Term Incentive Plan is approved by the Shareholders, then the Company will begin to issue stock-based performance compensation to the Company s officers and employees. The terms of the 2008 Unifi, Inc. Long-Term Incentive Plan are set forth in Proposal 2 hereto.

Supplemental Key Employee Retirement Plan

In July 2006, the Company established an unfunded supplemental retirement plan known as the Unifi, Inc. Supplemental Key Employee Retirement Plan (the Plan) for a select group of management employees (including the CEO and the other NEOs). Participants in the Plan are those employees of the Company or its subsidiaries who are determined to be participants in the Plan by the Compensation Committee in its sole and exclusive discretion. The Company established the Plan in order to provide certain management employees additional compensation benefits in order to further incentivize them and to provide better retention opportunities.

The Plan provides for an initial credit to each participant s account equal to three (3) times the product of the participant s base salary for the 2005 calendar year multiplied by the participant s SERP Credit Percentage (81/2% of the annual base salary for executive officers of the Company and 51/2% of the annual base salary for participants who are not executive officers of the Company). Thereafter, as of the end of each calendar year, each participant s account shall be credited with an amount equal to the product of such participant s base salary for such calendar year multiplied by the participant s applicable SERP Credit Percentage. Each participant s account will be adjusted as if the balance in such account had been invested in the stocks that make up the Standard & Poor s 500 Index in the same proportion as their respective weighting therein. Upon a participant s termination of employment with the Company, the participant shall be entitled to receive the amount credited to such participant s account in a single lump sum payable six months after the participant s termination of employment with the Company, except in the event that the participant s termination is due to death or disability, in which case the participant or the participant s designated beneficiary, as applicable, shall immediately be entitled to such payout.

Perquisites and Other Benefits

Automobile Allowance. The Company provided to certain employees an automobile allowance during fiscal 2008. During fiscal 2008, the Company paid its NEOs approximately $7,150 in automobile allowance. The Company also reimbursed its NEOs for certain automobile expenses during fiscal 2008. The Company provides these benefits to the NEOs because the Compensation Committee believes that these benefits are common among executive officers at similarly situated companies, and thus are an essential element in providing the NEOs with a competitive compensation package.

Retirement Benefits. In order to provide employees at all levels with greater incentive, the Company makes available to all employees, including the NEOs, the opportunity to make contributions to the Company s Retirement Savings Plan (401K Plan), under which employees may elect to defer up to 75% of their total compensation, not to exceed the amount allowed by applicable Internal Revenue Service regulations. Pursuant to the 401K Plan the Company matches contributions equal to 100% of the employee s first 3% of compensation contributed to the 401K Plan and 50% of the next 2% of compensation contributed to the 401K Plan.

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Health Plan, Life Insurance and Other Benefits. The Company makes available health and insurance benefits to all employees, including the NEOs. The cost of the health plans is covered partially through employees payroll deductions, with the remainder covered by the Company. Disability and life insurance benefits are paid by the Company for all salaried employees. In fiscal 2008, the cost of certain golf and social club memberships was covered for NEOs, provided that the club membership provides for a business-use opportunity such as use of the facilities for functions and meetings, and client networking and entertainment. On very limited occasions, spousal travel in connection with a business-related event is also a covered expense. This is limited to events sponsored for the purpose of building customer or employee relationships where the travel is for an extended period of time or extends into the personal time of the executive, or it is expected or customary for the executive to be accompanied by a spouse. Other perquisites such as income tax preparation, temporary housing, and moving and relocation costs are provided from time to time.

Change of Control Agreements. The Company entered into Change of Control Agreements with Messrs. Caudle, and McCoy on November 1, 2005, with Messrs. Berrier and Jasper on July 25, 2006, and with Mr. Smith on February 21, 2008 (each, an Officer). The agreements provide that if an Officer s employment is terminated involuntarily, other than by death or disability or cause, or voluntarily, other than for good reason, after a change of control of the Company, such Officer will receive certain benefits. The present value of those benefits will be 2.99 times the average of such Officer s annual compensation paid during the five (5) calendar years (or the period of such Officer s employment with the Company if such Officer has been employed with the Company for less than five calendar years) preceding the change of control of the Company, subject to being reduced to the largest amount which will result in no portion of the payment being subject to excise taxes under the Internal Revenue Code, all as determined by the Company s independent certified public accountants, whose decision shall be binding upon the Company and such Officer. These benefits will be paid to such Officer in equal installments over a twenty-four (24) month period. To be entitled to payments upon such a change of control, (a) the Officer s employment must be terminated other than for cause, or (b) the Officer must terminate his employment for good reason, in either case within two years following the change of control.

For purposes of the agreements, a change of control is deemed to occur if, among other things, (i) there shall be consummated any consolidation or merger of the Company or the sale of all or substantially all of the assets of the Company, (ii) the Shareholders of the Company have approved any plan or proposal for the liquidation or dissolution of the Company, (iii) any person acquires twenty percent (20%) or more of the outstanding voting stock of the Company, or (iv) if there is a change in the majority of directors under specified conditions within a two (2) year period. The benefits under these Change of Control Agreements are contingent and therefore not reported under the Summary Compensation Table.

Pursuant to their terms, each of the Change of Control Agreements with the NEOs will expire in November 2008.

Termination and Severance Agreements. During fiscal 2008, the Company terminated the employment of Brian R. Parke. Pursuant to the terms of an Employment Agreement between the Company and Mr. Parke, and as a result of his termination, Mr. Parke was entitled to receive an aggregate of $2,312,500, representing three years of his then-current base salary, together with additional compensation equal to thirty days of his then-current base salary in lieu of the thirty days prior written notice of termination provided in the Employment Agreement (the Cash Compensation). The Cash Compensation is payable in thirty-seven equal monthly installments, less appropriate deductions, including state and federal taxes. In addition to the Cash Compensation, (1) all current unexercised, non-vested options to purchase the Company s Common Stock previously granted to Mr. Parke have become fully vested and will remain exercisable through the end of their original terms; (2) for a period of three years following his termination date, August 1, 2007, Mr. Parke and his eligible family members are entitled to certain medical and insurance benefits equal to those provided to him during his employment; (3) Mr. Parke would receive all accrued benefits under the Company s Supplemental Key Employee Retirement Plan; and (4) Mr. Parke was entitled to the payment by the Company of all reasonable costs in connection with his eventual relocation to his native country of Ireland, which costs will be grossed up for applicable taxes. The confidentiality and non-competition provisions of the Employment Agreement survive the termination of the Employment Agreement for five years and three years, respectively.

The Company entered into a Severance Agreement (the Severance Agreement) with Mr. Lowe in October, 2007, which provides for the termination of Mr. Lowe s employment with the Company. Pursuant to the Severance Agreement Mr. Lowe s last day of employment was October 1, 2007 (the Separation Date). The Severance Agreement was retroactively effective to the Separation Date. Under the terms of the Severance Agreement, (i) Mr. Lowe will receive aggregate severance equal to $1,650,000, subject to applicable withholding and deductions, in seventy-eight (78) equal bi-weekly installments, (ii) Mr. Lowe continued to receive medical and dental coverage from the Company through the earlier of his coverage by a new employer or September 30, 2010, provided that Mr. Lowe shall continue to pay the premiums applicable to other employees of the Company for such coverage, and (iii) Mr. Lowe s unvested restricted stock and unvested options shall be fully vested on the Separation Date. In exchange for the consideration provided by the Severance Agreement, Mr. Lowe has also agreed to, among other things, (i) refrain from engaging in certain competitive activity for a period of three (3) years following the Separation Date, (ii) keep confidential the Company s confidential information, (iii) fully release the Company, and its subsidiaries and affiliate companies from all claims, and (iv) provide continued cooperation and assistance to the Company following the Separation Date. On August 1, 2008 Mr. Lowe informed the Company that he no longer required medical and dental coverage from the Company.

Tax Impact on Compensation

The Compensation Committee has considered the impact of Section 162(m) of the Internal Revenue Code on the Company s executive compensation program. Section 162(m) denies a public company a deduction, except in limited circumstances, for compensation paid to covered employees, i.e., those employees named in the Summary Compensation Table below, to the extent such compensation exceeds $1,000,000. Based on its review of the likely impact of Section 162(m), the Compensation Committee may in the future recommend changes to the Company s benefit plans in order to qualify compensation paid to covered employees for such exception.

Compensation Discussion for Fiscal 2009

In order to provide recommendations to the Compensation Committee concerning competitive ranges of all components of NEO compensation for fiscal 2009, the Company s management engaged a compensation consultant, Towers Perrin, to prepare information concerning the market for executive compensation and compare the Company s executive compensation program against that market.

The compensation consultant prepared compensation data from multiple survey sources, reflective of general industry pay levels for companies of similar size, including the 25th, 50th and 75th percentile market pay data for each of the NEOs. For fiscal 2009, these survey sources are the Towers Perrin CDB Executive Compensation Database, the Watson Wyatt Worldwide 2007/2008 Top Management Compensation Calculator and the Mercer 2007 Executive Benchmark Database Survey.

The Compensation Committee did not seek to set executive compensation at or near any particular percentile, and considers total compensation to be competitive if it is within the band of the 25th to 75th percentiles. Market data is only one of many factors that the Committee considered in the determination of executive compensation le