UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 28, 2004

OR

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

For the transition period from __________ to __________

Commission file number 1-10542

UNIFI, INC.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

The number of shares outstanding of the issuer’s common stock, par value $.10 per share, as of May 4, 2004 was 52,114,799.

Part 1. Financial Information

Item 1. Financial Statements

UNIFI, INC.

Condensed Consolidated Balance Sheets

	March 28, 2004	June 29, 2003
	(Unaudited)	(Note)
	(Amounts in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,731	$ 76,801
Receivables, net	128,918	130,775
Inventories	119,776	118,436
Other current assets	8,723	8,235
Total current assets	317,148	334,247
Property, plant and equipment	1,175,273	1,214,915
Less: accumulated depreciation	(808,128)	(770,102)
	367,145	444,813
Investments in unconsolidated affiliates	165,783	173,731
Other noncurrent assets	19,022	35,345
Total assets	$ 869,098	$ 988,136
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 68,921	$ 80,972
Accrued expenses	53,444	60,288
Income taxes payable	1,393	1,729
Current maturities of long-term debt and other current liabilities	8,840	7,285
Total current liabilities	132,598	150,274
Long-term debt and other liabilities	258,716	259,395
Deferred income taxes	62,805	87,814
Minority interests	4,119	10,905
Commitments and contingencies Shareholders’ equity:		
Common stock	5,211	5,340
Capital in excess of par value	127	—
Retained earnings	443,539	515,572
Unearned compensation	(267)	(302)
Accumulated other comprehensive loss	(37,750)	(40,862)
	410,860	479,748
Total liabilities and shareholders’ equity	$ 869,098	$ 988,136

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

See accompanying notes to condensed consolidated financial statements.

UNIFI, INC.

Condensed Consolidated Statements of Operations
(Unaudited)

	For the Quarters Ended		For the Nine Months Ended	
	March 28, 2004	March 30, 2003	March 28, 2004	March 30, 2003
	(Amounts in thousands, except per share data)			
Net sales	$190,915	$219,633	$554,786	$643,022
Cost of sales	182,128	204,094	531,747	589,417
Selling, general & administrative expense	13,688	14,185	39,847	39,661
Interest expense	4,741	4,534	14,272	15,079
Interest income	725	344	2,121	1,090
Other (income) expense, net	(2,663)	(90)	(777)	(160)
Equity in losses (earnings) of unconsolidated affiliates	6,669	(3,209)	6,558	(9,366)
Minority interest (income) expense	(4,755)	(1,163)	(6,831)	2,408
Restructuring charges	20,799	—	20,799	—
Arbitration costs and expenses	3	2,458	3	5,292
Alliance plant closure costs (recovery)	(206)	(3,486)	(206)	(3,486)
Asset impairments and write downs	38,703	—	38,703	—
(Loss) income before income taxes	(67,467)	2,654	(87,208)	5,267
(Benefit) provision for income taxes	(17,475)	1,510	(23,434)	1,966
Net (loss) income	$ (49,992)	$ 1,144	$ (63,774)	$ 3,301
(Losses) earnings per common share - basic	$ (.96)	$ .02	$ (1.22)	$ .06
(Losses) earnings per common share - diluted	$ (.96)	$ .02	$ (1.22)	$ .06

See accompanying notes to condensed consolidated financial statements.

UNIFI, INC.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended	
	March 28, 2004	**March 30, 2003**
	(Amounts in thousands)	
Cash and cash equivalents (used in) provided by operations:		
Net (loss) income	$ (63,774)	$ 3,301
Income Charges not affecting cash:		
Depreciation and amortization	50,025	55,565
Restructuring charges	20,641	—
Asset impairments and write downs	38,703	—
Deferred income tax	(25,010)	945
Change in working capital	(24,298)	25,378
Other	822	2,684
Cash (used in) provided by operating activities	(2,891)	87,873
Cash (used in) provided by investing activities:		
Capital expenditures	(7,522)	(18,975)
Proceeds from sale of capital assets	4,191	79
Investment in foreign restricted assets	(1,989)	(2,373)
Other	(1,623)	4,499
Cash used in investing activities	(6,943)	(16,770)
Cash (used in) provided by Financing activities:		
Borrowing of long-term debt	237,161	748,361
Repayment of long-term debt	(236,359)	(772,106)
Purchase and retirement of Company stock	(8,398)	(20)
Cash used in financing activities	(7,596)	(23,765)
Currency translation adjustment	360	35
Net (decrease) increase in cash and cash equivalents	(17,070)	47,373
Cash and cash equivalents at beginning of period	76,801	19,105
Cash and cash equivalents at end of period	$ 59,731	$ 66,478

See accompanying notes to condensed consolidated financial statements.

1. Basis of Presentation

The information furnished is unaudited and reflects all adjustments which are, in the opinion of management, necessary to present fairly the financial position at March 28, 2004, and the results of operations and cash flows for the periods ended March 28, 2004 and March 30, 2003. Such adjustments consisted of normal recurring items necessary for fair presentation in conformity with U.S. generally accepted accounting principles. Preparing financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in the Company's latest Form 10-K. Certain prior year amounts have been reclassified to conform to current year presentation.

2. Inventories

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

	March 28, 2004	June 29, 2003
Raw materials and supplies	$ 56,967	$ 56,855
Work in process	10,838	9,171
Finished goods	51,971	52,410
	$119,776	$118,436

3. Income Taxes

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

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

4. Comprehensive Income (Loss)

Comprehensive (loss) income amounted to $(52.6) million for the third quarter of fiscal 2004 and $(60.7) million for the year-to-date period, compared to $6.0 million and $3.3 million for the prior year quarter and year-to-date periods, respectively. Comprehensive income (loss) for all periods presented was comprised of net income (loss) and foreign translation adjustments. The Company does not provide income taxes on the impact of currency translations as earnings from foreign subsidiaries are deemed to be permanently invested.

5. Earnings per Share

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

	For the Quarters Ended		For the Nine Months Ended	
	March 28, 2004	March 30, 2003	March 28, 2004	March 30, 2003
Net (loss) income applicable to common shareholders	$(49,992)	$ 1,144	$(63,774)	$ 3,301
Weighted average outstanding shares of common stock	52,075	53,794	52,306	53,781
Dilutive effect of:				
Stock options	—	—	—	35
Restricted stock awards	—	—	—	2
Common stock and common stock equivalents	52,075	53,794	52,306	53,818
(Loss) earnings per common share:				
Basic	$ (.96)	$ .02	$ (1.22)	$ .06
Diluted	$ (.96)	$ .02	$ (1.22)	$ .06

6. Recent Accounting Pronouncements

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

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities” (FIN 46). This interpretation of Accounting Research Bulletin No. 51, “Consolidated Financial Statements”, addresses consolidation of variable interest entities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary if the entity does not effectively disperse risks among the parties involved. During December 2003, FASB Interpretation No. 46 was revised and the effective date for applying FIN 46 was postponed until the first reporting period that ends after March 15, 2004. During the quarter, the Company performed the necessary analysis and determined that none of the Company’s variable interest entities are required to be consolidated at this time. See Note 10 for disclosure of information related to investments in unconsolidated affiliates.

7. Segment Disclosures

Statement of Financial Accounting Standards No. 131, “Disclosures about Segments of an Enterprise and Related Information,” (SFAS 131) established standards for public companies for the reporting of financial information from operating segments in annual and interim financial statements as well as related disclosures about products and services, geographic areas and major customers. Operating segments are defined in SFAS 131 as components of an enterprise about which separate financial information is available to the chief operating decision-maker for purposes of assessing performance and allocating resources. During the quarter, the Company formalized its initiative to develop a sourcing business. Activities relating to the sourcing business prior to the third quarter are immaterial and are included in Other (income) expense. Following is the Company’s selected segment information for the quarter and year-to-date periods ended March 28, 2004, and March 30, 2003 (amounts in thousands):

	Polyester	Nylon	Sourcing	Total
Quarter ended March 28, 2004:				
Net sales to external customers	$144,864	$ 45,373	$ 678	$190,915
Intersegment net sales	719	315	—	1,034
Segment operating (loss) income	(160)	(2,527)	(203)	(2,890)
Depreciation and amortization	10,868	3,976	—	14,844
Asset impairments and write downs	38,703	—	—	38,703
Restructuring charges	20,360	439	—	20,799
Total assets	462,997	187,614	1,409	652,020
Quarter ended March 30, 2003:				
Net sales to external customers	$166,564	$ 53,069	$ —	$219,633
Intersegment net sales	51	208	—	259
Segment operating income	6,049	(1,392)	—	4,657
Depreciation and amortization	11,915	4,115	—	16,030
Total assets	540,751	196,943	—	737,694

	For the Quarters Ended	
	March 28, 2004	March 30, 2003
Operating (loss) income:		
Reportable segments operating (loss) income	$ (2,890)	$ 4,657
Net standard cost adjustment to LIFO	(1,437)	(2,899)
Unallocated operating expense	(574)	(404)
Consolidated operating (loss) income	(4,901)	1,354
Interest expense, net	4,016	4,190
Other (income) expense, net	(2,663)	(90)
Equity in losses (earnings) of unconsolidated affiliates	6,669	(3,209)
Minority interest (income) expense	(4,755)	(1,163)
Restructuring charges	20,799	—
Arbitration costs and expenses	3	2,458
Alliance plant closure costs (recovery)	(206)	(3,486)
Asset impairments and write downs	38,703	—
(Loss) income before income taxes	$(67,467)	$ 2,654

	Polyester	Nylon	Sourcing	Total
Nine months ended March 28, 2004:				
Net sales to external customers	$410,704	$143,404	$ 678	$554,786
Intersegment net sales	1,899	1,618	—	3,517
Segment operating (loss) income	(9,212)	(5,811)	(203)	(15,226)
Depreciation and amortization	33,126	12,021	—	45,147
Asset impairments and write downs	38,703	—	—	38,703
Restructuring Charges	20,360	439	—	20,799
Nine months ended March 30, 2003:				
Net sales to external customers	$469,340	$173,682	$ —	$643,022
Intersegment net sales	96	427	—	523
Segment operating income (loss)	17,307	(28)	—	17,279
Depreciation and amortization	36,420	13,825	—	50,245

	For the Nine Months Ended	
	March 28, 2004	March 30, 2003
Operating income:		
Reportable segments operating (loss) income	$(15,226)	$17,279
Net standard cost adjustment to LIFO	26	(2,336)
Unallocated operating expense	(1,608)	(999)
Consolidated operating (loss) income	(16,808)	13,944
Interest expense, net	12,151	13,989
Other (income) expense, net	(777)	(160)
Equity in earnings of unconsolidated affiliates	6,558	(9,366)
Minority interest (income) expense	(6,831)	2,408
Restructuring charges	20,799	—
Arbitration costs and expenses	3	5,292
Alliance plant closure costs (recovery)	(206)	(3,486)
Asset impairments and write downs	38,703	—
(Loss) income before income taxes	$(87,208)	$ 5,267

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

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

Domestic operating divisions' fiber costs are valued on a standard cost basis, which approximates first-in, first-out accounting. For those components of inventory valued utilizing the last-in, first-out (LIFO) method an adjustment is made at the corporate level to record the difference between standard cost and LIFO. Segment operating income excludes the provision for bad debts of $0.9 million and $0.0 million for the current and prior year quarters, respectively, and $1.9 million and $2.1 million for the current and prior year nine month periods, respectively. Segment operating income also excludes certain unallocated selling, general and administrative expenses. For significant capital projects, capitalization is delayed for management segment reporting until the facility is substantially complete. However, for consolidated management financial reporting, assets are capitalized into construction in progress as costs are incurred or carried as unallocated corporate fixed assets if they have been placed in service but have not as yet been moved for management segment reporting.

The total assets for the polyester segment decreased from $540.5 million at June 29, 2003 to $463.0 million at March 28, 2004 due primarily to accounts receivable, inventories, and fixed assets decreasing by $8.2 million, $4.1 million and $65.4 million, respectively. The total assets for the nylon segment increased from $184.8 million at June 29, 2003 to $187.6 million at March 28, 2004 due mainly to accounts receivable and inventories increasing by $12.1 million and $2.1 million, respectively, offset by a decrease in fixed assets of $11.6 million.

8. Stock-Based Compensation

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

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

	For the Quarters Ended		For the Nine Months Ended	
	March 28, 2004	March 30, 2003	March 28, 2004	March 30, 2003
	(Amounts in thousands, except per share data)			
Net (loss) income as reported	$(49,992)	$1,144	$(63,774)	$ 3,301
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(317)	(739)	(1,443)	(2,571)
Pro forma net (loss) income	$(50,309)	$ 405	$(65,217)	$ 730
Earnings (losses) per share:				
Basic – as reported	$ (.96)	$ .02	$ (1.22)	$ .06
Basic – pro forma	(.97)	$ .01	(1.25)	$ .01
Diluted – as reported	(.96)	$ .02	(1.22)	$ .06
Diluted – pro forma	(.97)	$ .01	(1.25)	$ .01

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

9. Derivative Financial Instruments

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

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

Currency forward contracts are entered to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 60-80% of the sales value of these orders is covered by forward contracts. Maturity dates of the forward contracts attempt to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other income and expense. The Company also enters currency forward contracts for committed or anticipated equipment and inventory purchases. Generally, 50-75% of the asset cost is covered by forward contracts although 100% of the asset cost may be covered by contracts in certain instances. Forward contracts are matched with the anticipated date of delivery of the assets and gains and losses are recorded as a component of the asset cost for purchase transactions when the Company is firmly committed. The latest maturity for all outstanding purchase and sales foreign currency forward contracts are July 2004 and March 2005, respectively.

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

	March 28, 2004	June 29, 2003
Foreign currency purchase contracts:		
Notional amount	$ 6,452	$ 2,926
Fair value	6,324	2,658
Net (gain) loss	$ 128	$ 268
Foreign currency sales contracts:		
Notional amount	$18,133	$18,530
Fair value	18,846	17,945
Net (gain) loss	$ (713)	$ (585)

For the quarters ended March 28, 2004 and March 30, 2003, the total impact of foreign currency related items on the Condensed Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pre-tax loss of $0.1 million and $0.0 million, respectively. For the year-to-date periods ended March 28, 2004 and March 30, 2003, the total impact of foreign currency related items was a pre-tax loss of $0.3 million and pre-tax gain of $0.6 million, respectively.

10. Investments in Unconsolidated Affiliates

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

Since the second quarter of fiscal 2003, management of the joint venture determined that on a quarterly basis it was appropriate to evaluate the cumulative losses and financial condition of the enterprise and its effect on the tangible and intangible long lived assets employed by the joint venture in an effort to determine if the carrying value of such assets may not be recoverable. During the March quarter, a test of the recoverability of its long lived assets, approximately $25.6 million as of March 28, 2004, was completed and it was determined that the carrying value of such assets was recoverable through expected future cash flows. The joint venture will continue to be monitored for the recoverability of its long lived assets as business conditions change.

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

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

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

Condensed balance sheet and income statement information as of March 28, 2004, and for the quarter and year-to-date periods ended March 28, 2004, of the combined unconsolidated equity affiliates is as follows (amounts in thousands):

	March 28, 2004
Current assets	$202,387
Noncurrent assets	158,183
Current liabilities	35,856
Shareholders’ equity and capital accounts	268,136

	Quarter Ended March 28, 2004	For the Nine Months Ended March 28, 2004
Net sales	$124,667	$454,438
Gross (loss) profit	(1,577)	6,552
(Loss) from operations	(7,538)	(9,042)
Net (loss)	(19,201)	(18,659)

11. Consolidation and Cost Reduction Efforts

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

In the third quarter of fiscal 2004, the Company recorded a restructuring charge of $20.8 million which consisted of $6.9 million of employee severance for approximately 280 management and production level employees, worldwide, $11.8 million of fixed asset write-offs associated with the closure of a plant in England and the consolidation of the Company's polyester operations in Ireland and other consolidation related costs of $2.1 million which primarily relate to the plant in England. Severance payments are being made in accordance with various plan terms and the expected completion date is July 2005. Additionally, the Company's polyester segment expects further restructuring charges estimated at $5.0 million during the fourth quarter of 2004.

The table below summarizes changes to the accrued severance and accrued restructuring accounts for the nine months ended March 28, 2004:

(Amounts in thousands)	Balance at June 29, 2003	Fiscal 2004 Charge	Fiscal 2004 Adjustments	Fiscal 2004 Amount Used	Balance at March 28, 2004
Accrued severance	$13,893	$ 6,948	$947	$12,366	$9,422
Accrued restructuring	$ —	$13,851	$ —	$12,562	$1,289

The 2004 adjustment of $0.9 million relates to the termination of an executive during the second quarter of fiscal 2004. The amount used relating to accrued restructuring of $12.6 million primarily includes fixed asset write downs.

12. Impairment Charges

During the current quarter, management performed impairment testing for the domestic textured polyester business due to the continued challenging business conditions and reduction in volume and gross profit for the most recent fiscal quarter ended December 28, 2003. Accordingly, management determined the fair value of the plant, property and equipment at $73.7 million using market prices of the assets. Management determined that the assets were in fact impaired because the carrying value was $98.9 million. This resulted in a $25.2 million write down of the assets, which is included in the "Asset impairments and write downs" line item in the Condensed Consolidated Statements of Operations.

Subsequent to performing the SFAS No. 144 testing above and based on the circumstances set forth above, the entire domestic polyester segment was tested for impairment as of February 29, 2004. As a result of the testing, the Company recorded a goodwill impairment charge of $13.5 million in the third quarter to reduce the segment's goodwill to zero. The Company used the income approach and market approach to determine the fair value. The $13.5 million charge is included in the "Asset impairments and write downs" line item in the Condensed Consolidated Statements of Operations.

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

Description	Amount
Write down of long-lived assets	$25,241
Goodwill impairment	13,462
Total	$38,703

13. Alliance

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

During the quarters ended March 28, 2004 and March 30, 2003, the Company recognized, as a reduction of cost of sales, cost savings and other benefits from the alliance of $10.4 million and $7.3 million, respectively, and $26.9 million and $25.1 million for the current and prior year-to-date periods, respectively.

At termination of the Alliance or at any time after June 1, 2005, DuPont has the right but not the obligation to sell to Unifi (a "Put") and Unifi has the right but not the obligation to purchase from DuPont (a "Call"), DuPont's U.S. polyester filament business for a price based on a mutually agreed fair market value. In the event Dupont exercises its Put or Unifi exercises its Call prior to the end of the sixth year of the Alliance, the purchase price of Dupont's business shall be within a range of $300.0 million to $600.0 million. Dupont's right to put its U.S. polyester filament business to Unifi and Unifi's obligation to purchase such business are subject to certain conditions, including the ability of the Company to obtain a reasonable amount of financing on commercially reasonable terms. The Company believes that its ability to finance the purchase of Dupont's U.S. polyester filament business will be partially dependant upon the level of underlying cash flows generated by such business; and it is unclear whether the cash flow levels expected to be generated by the business are sufficient at this time to enable the Company to obtain such financing. In the event that the Company does not purchase the DuPont U.S. polyester filament business, DuPont would have the right but not the obligation to purchase the Company's domestic POY facility for a price based on a mutually agreed fair market value. In the event Dupont exercises the aforesaid right to purchase within twelve months of receipt of its “Notice of Exercise” to the Company, then the purchase price for the Company’s domestic POY facility shall be within a range of $125.0 million to $175.0 million. See Note 15 for additional information involving the Alliance.

On November 17, 2003, Dupont and Koch Industries, Inc. (Koch) announced the potential purchase by Koch of certain Dupont textile facilities, including the Dupont Kinston facility, which is a part of the Alliance. The Company was subsequently requested, and granted its consent, to the transaction involving the Kinston facility.

On April 30, 2004, Koch closed the aforementioned transaction, and henceforth, the Alliance Agreement is between Koch and the Company.

14. Bank Debt

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

As of March 28, 2004, the Company had no outstanding borrowings and had availability of $93.6 million under the terms of the Credit Agreement. Borrowings under the Credit Agreement bear interest at rates selected periodically by the Company of LIBOR plus 1.75% to 3.00% and/or prime plus 0.25% to 1.50%. The interest rate matrix is based on the Company’s leverage ratio of funded debt to EBITDA, as defined by the Credit Agreement. The interest rate in effect at March 28, 2004, was 4.09%. Under the Credit Agreement, the Company pays an unused line fee ranging from 0.25% to 0.50% per annum on the unused portion of the commitment.

The Credit Agreement contains customary covenants for asset based loans which restrict future borrowings and capital spending and, if availability is less than $25.0 million at any time during the quarter, include a required minimum fixed charge coverage ratio of 1.1 to 1.0 and a required maximum leverage ratio of 5.0 to 1.0. At March 28, 2004, the Company was in compliance with all covenants under the Credit Agreement as it had availability in excess of $25.0 million.

15. Commitments and Contingencies

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

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

On March 26, 2004, DuPont filed a Motion to File First Amended Demand For and Notice of Arbitration. DuPont's motion asked that DuPont's wholly-owned subsidiary, Invista, Inc., be added as a claimant in the arbitration proceeding.

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

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

The Company accounts for its investment in PAL on the equity method of accounting and as of March 28, 2004, the Company's carrying investment in PAL (including goodwill value) was $142.4 million. During the nine months ended March 28, 2004, the Company had equity in losses relating to PAL of $6.5 million. The Company is unable at this time to determine the level of damages for which PAL may be liable or the impact of such liability on the Company, which impact could be material. The Company is continuing to review the circumstances surrounding PAL's involvement in the activities.

The Company has been named in various federal class action lawsuits and a demand for relief under Massachusetts law related to the PAL Activities. The Company has or will deny all the allegations against it in these claims and intends to vigorously defend itself. The Company does not believe it has any responsibility or liability for PAL's actions; however, as in any litigation, the outcomes of these claims are uncertain at this time and the Company is not making any assurances as to the outcome thereof.

16. Subsequent Events

On April 13, 2004, the Company announced that it had ceased joint venture discussions with Guangdong Kaiping Polyester Enterprises Group ("Kaiping") and Guangdong Kaiping Chunhui Co. Ltd. The Company is currently in the process of evaluating whether to pursue a "greenfield" strategy to produce its value-added yarn in China or whether it should pursue other joint venture opportunities that recently materialized as a result of the outcome of the discussions with Kaiping.

On May 11, 2004, Unifi agreed to acquire the hosiery yarn and texturing assets of Sara Lee Branded Apparel ("Sara Lee") and enter into a long-term supply agreement. Under terms of the agreement, Unifi expects to purchase certain yarn production equipment from Sara Lee for $2.6 million. The acquisition is expected to increase the nylon division's revenue by more than 20% and the workforce by approximately 170. The production of fine denier covered yarn and textured nylon filament yarn for Sara Lee's hosiery operations will be transferred to existing equipment located in the Company's Madison, North Carolina plant. This transfer is expected to be completed by July 16, 2004.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Results of Operations

Consolidated net sales decreased from $219.6 million to $190.9 million, or 13.1%, for the quarter and 13.4% for the year-to-date period. Unit volume decreased 12.7% for the quarter and 12.1% for the year-to-date period, while average net selling prices decreased by 0.7% and 1.7% for the quarter and year-to-date periods, respectively, as a result of sales price declines and a change in product mix.

At the segment level, polyester accounted for 76.2% and 74.1% of dollar net sales and nylon accounted for 23.8% and 25.9% of dollar sales for both the fiscal year 2004 third quarter and year-to-date periods, respectively. During the third quarter of Fiscal 2004 the Company established a third reporting segment, "Sourcing", see Note 7 "Segment Disclosure". The sourcing segment has not had material operations to date.

Polyester

Dollar sales for our polyester segment for the quarter and year-to-date periods declined 13.0% and 11.9%, respectively, compared with the prior year periods. Domestic polyester unit volume for the fiscal 2004 third quarter and year-to-date periods decreased 13.6% and 13.5%, respectively, compared to the prior year periods. Average selling prices for the fiscal year 2004 third quarter and year-to-date periods decreased 0.8% and 0.1%, respectively, as a result of reduced selling prices and a change in product mix.

Sales in local currency for our Brazilian operation decreased 1.4% while unit volume increased 8.8% for the quarter. For the nine month period, sales in local currency for the Brazilian operation increased 1.0% primarily due to a 7.4% increase in unit volume. The decrease in selling prices for the quarter is primarily due to the strengthening of the Brazilian Real to the U.S. dollar. Sales in local currency of our Irish operation for the quarter and nine month periods decreased 37.7% and 22.1%, respectively, primarily due to reductions in unit volumes of 31.8% and 19.2%, respectively. The average unit selling prices for the Irish operation decreased 8.7% for the current quarter and 7.7% for the nine month period. The movement in currency exchange rates from the prior year to the current year positively benefited the current quarter and year-to-date sales translated to U.S. dollars for the Brazilian operation. U.S. dollar net sales were $3.6 million and $9.2 million higher than what sales would have been reported using prior year translation rates for the quarter and year-to-date, respectively, with this effect attributable to the change in the exchange rate between the U.S. dollar and the Brazilian Real. U.S. dollar net sales for the Irish operation were $2.5 million and $7.3 million higher than what sales would have been reported using prior year translation rates for the quarter and year-to-date periods, respectively.

Gross profit for our polyester segment decreased $6.5 million to $9.9 million in the quarter and decreased $26.0 million to $20.5 million for the nine month period. The decrease in gross profit for the quarter and nine month periods is primarily due to a decrease in unit volumes and average sales price. The DuPont alliance accounted for benefits of $10.4 million and $7.3 million for the current and prior year quarters, respectively, and accounted for year-to-date benefits of $26.9 million and $25.1 million for the current and prior year-to-date periods.

Selling, general and administrative expenses allocated, based on various cost components, to the polyester segment increased from 6.2% of net sales in the prior year March quarter to 7.0% in the current quarter, and from 6.2% of net sales in the prior year nine month period to 7.1% in the current nine month period. On a dollar basis, selling, general and administrative expenses decreased $0.3 million to $10.1 million for the current quarter and increased $0.5 million to $29.7 million for the current nine month period compared with prior year periods. Included in the quarterly selling, general and administrative expenses were $0.9 million of special charges relating to the restructuring plan that due not qualify as restructuring charges under SFAS No. 146.

During the current quarter, management performed impairment testing for the domestic textured polyester business due to the continued challenging business conditions and reduction in volume and gross profit for the most recent fiscal quarter ended December 28, 2003. Accordingly, management determined the fair value of the plant, property and equipment at $73.7 million using market prices of the assets. Management determined that the assets were in fact impaired because the carrying value was $98.9 million. This resulted in a $25.2 million write down of the assets, which is included in the "Asset impairments and write downs" line item in the Condensed Consolidated Statements of Operations.

Subsequent to performing the SFAS No. 144 testing above and based on the circumstances set forth above, the entire domestic polyester segment was tested for impairment as of February 29, 2004. As a result of the testing, the Company recorded a goodwill impairment charge of $13.5 million in the third quarter to reduce the segment's goodwill to zero. The Company used the income approach and market approach to determine the fair value. The $13.5 million charge is included in the "Asset impairments and write downs" line item in the Condensed Consolidated Statements of Operations.

Nylon

Dollar sales for our nylon segment for the current year quarter and year-to-date periods declined 14.5% and 17.3%, respectively, compared with prior year periods. Nylon unit volume for the March quarter and year-to-date periods declined 16.25% and 14.0%, respectively, compared to the prior year periods. Average selling prices increased 2.1% for the quarter and decreased 3.8% for the nine month period.

Gross profit for our nylon segment decreased $1.4 million to $0.6 million in the quarter and decreased $5.8 million to $3.6 million for the nine month period primarily as a result of declining sales. Manufacturing unit costs decreased slightly for both periods however, the decline in selling price more than offset the benefit.

Selling, general and administrative expenses allocated to the nylon segment increased from 6.4% of net sales in the prior year's March quarter to 6.6% in the current quarter, and from 5.4% in the prior year's nine month period to 6.3% in the current nine month period. On a dollar basis, selling, general and administrative expenses decreased $0.3 million to $3.1 million for the March quarter and remained unchanged at $9.4 million for the year-to-date period. Included in the quarterly selling, general and administrative expenses were $0.4 million of special charges relating to the restructuring plan that due not qualify as restructuring charges under SFAS No. 146.

Corporate

Interest expense increased $0.2 million to $4.7 million in the current quarter and decreased $0.8 million to $14.2 million for the current year-to-date period. The decrease in interest expense for nine months reflects lower average debt outstanding. The weighted average interest rate on outstanding debt at March 28, 2004, was 6.5% compared to 6.7% at March 30, 2003.

Other income and expense for the current and prior year quarters includes $0.9 million and $0.0 million, respectively, for the provision of bad debts. For the current year-to-date period, the provision for bad debts was $1.9 million compared to $2.1 million for the prior year-to-date period. In the current quarter, other income and expense included a gain on the sale of fixed assets of $4.0 million. For the prior nine month period, other income and expense was favorably impacted by the recognition in income of non-refundable fees collected in the amount of $1.0 million associated with our technology license agreement with Tuntex (Thailand).

Equity in the net losses of our unconsolidated affiliates, Parkdale America, LLC, Micell Technologies, Inc., Unifi-Sans Technical Fibers, LLC and U.N.F. Industries Ltd amounted to $6.7 million in the third quarter of fiscal 2004 compared with earnings of $3.2 million for the corresponding prior year quarter. For the year-to-date period, equity in net losses of these affiliates totaled $6.6 million compared to net earnings of $9.4 million in the prior year. Additional details regarding the Company's investments in unconsolidated equity affiliates and alliance follows:

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

Since the second quarter of fiscal 2003, management of the joint venture determined that on a quarterly basis it was appropriate to evaluate the above circumstances and their effect on the tangible and intangible long lived assets employed by the joint venture in an effort to determine if the carrying value of such assets may not be recoverable. During the March quarter, a test of the recoverability of its long lived assets, approximately $25.6 million as of March 28, 2004, was completed and it was determined that the carrying value of such assets was recoverable through expected future cash flows. The joint venture will continue to be monitored for the recoverability of its long lived assets as business conditions change.

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

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

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

Condensed balance sheet and income statement information as of March 28, 2004, and for the quarter and year-to-date periods ended March 28, 2004, of the combined unconsolidated equity affiliates is as follows (amounts in thousands):

	March 28, 2004
Current assets	$202,387
Noncurrent assets	158,183
Current liabilities	35,856
Shareholders’ equity and capital accounts	268,136

	Quarter Ended March 28, 2004	For the Nine Months Ended March 28, 2004
Net sales	$124,667	$454,438
Gross profit	(1,577)	6,552
(Loss) income from operations	(7,538)	(9,042)
Net (loss) income	(19,201)	(18,659)

In the fourth quarter of fiscal year 2001, the Company recorded its share of the anticipated costs of closing DuPont’s Cape Fear, North Carolina facility. The charge totaled $15.0 million and represents 50% of the severance and dismantlement cost of closing this plant. The Cape Fear plant produced polyester POY and was one of two DuPont facilities involved in the Alliance further discussed in Note 13 “Alliance.” Now that the project is substantially complete the Company’s actual share of the severance and dismantlement costs is currently estimated to be $11.5 million. Accordingly, the Company reflected a reduction of previously recorded amounts of $3.5 million in the fiscal year ended June 29, 2003. During the current quarter, the Company was provided the final accounting for the project. As a result, the Company reflected a reduction of previously recorded amounts of $0.2 million this quarter.

Minority interest income was $4.8 million in the current year fiscal quarter compared to $1.2 million in the prior year third quarter. For the current and prior year-to-date periods, minority interest income was $6.8 million and a charge of $2.4 million, respectively. The minority interest income recorded in the consolidated financial statements primarily relates to the minority owner’s share of the earnings of Unifi Textured Polyester, LLC. The change in minority interest income/expense is due to a change, pursuant to the operating agreement, in the methodology used to allocate net earnings and cash flows.

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

In the third quarter of fiscal 2004, the Company recorded a restructuring charge of $20.8 million which consisted of $6.9 million of employee severance for approximately 280 management and production level employees, worldwide, $11.8 million of fixed asset write-offs associated with the closure of a plant in England and the consolidation of the Company’s polyester operations in Ireland and other consolidation related costs of $2.1 million which primarily relate to the plant in England. Severance payments are being made in accordance with various plan terms and the expected completion date is July 2005. Additionally, the Company’s polyester segment expects further restructuring charges estimated at $5.0 million during the fourth quarter of 2004.

The table below summarizes changes to the accrued severance and accrued restructuring accounts for the nine months ended March 28, 2004:

(Amounts in thousands)	Balance at June 29, 2003	Fiscal 2004 Charge	Fiscal 2004 Adjustments	Fiscal 2004 Amount Used	Balance at March 28, 2004
Accrued severance	$13,893	$ 6,948	$947	$12,366	$9,422
Accrued restructuring	$ —	$13,851	$ —	$12,562	$1,289

The 2004 adjustment of $0.9 million relates to the termination of an executive during the second quarter of fiscal 2004. The amount used relating to accrued restructuring of $12.6 million primarily includes fixed asset write downs.

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

As a result of the above, the Company realized a net loss of $50.0 million, or $0.96 loss per share for the current quarter, compared to net income of $1.1 million, or $.02 per share, for the corresponding quarter of the prior year, and a net loss of $63.8 million or $1.22 loss per share for the current year-to-date period compared to net income of $3.3 million or $.06 per share for the prior year-to-date period.

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

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

Currency forward contracts are entered to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 60-80% of the sales value of these orders is covered by forward contracts. Maturity dates of the forward contracts attempt to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other income and expense. The Company also enters currency forward contracts for committed or anticipated equipment and inventory purchases. Generally, 50-75% of the asset cost is covered by forward contracts, although 100% of the asset cost may be covered by contracts in certain instances. Forward contracts are matched with the anticipated date of delivery of the assets and gains and losses are recorded as a component of the asset cost for purchase transactions the Company is firmly committed. The latest maturity for all outstanding purchase and sales foreign currency forward contracts are July 2004 and March 2005, respectively.

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

	March 28, 2004	June 29, 2003
Foreign currency purchase contracts:		
Notional amount	$ 6,452	$ 2,926
Fair value	6,324	2,658
Net (gain) loss	$ 128	$ 268
Foreign currency sales contracts:		
Notional amount	$18,133	$18,530
Fair value	18,846	17,945
Net (gain) loss	$ (713)	$ (585)

For the quarter ended March 28, 2004 and March 30, 2003, the total impact of foreign currency related items on the Condensed Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pre-tax loss of $0.1 million and $0.0 million, respectively. For the year-to-date periods ended March 28, 2004 and March 30, 2003, the total impact of foreign currency related items was a pre-tax loss of $0.3 million and pre-tax gain of $0.6 million, respectively.

Liquidity and Capital Resources

Cash used in operations was $2.9 million for the nine months ended March 28, 2004, compared to cash provided by operations of $87.9 million for the corresponding period of the prior year. The primary sources of cash from operations were decreases in accounts receivable of $18.2 million and inventories of $4.7 million, and depreciation and amortization aggregating $50.0 million. Offsetting these sources of cash from operations, other than the net loss, were decreases in accounts payable of $14.3 million and accrued liabilities of $6.9 million. All working capital changes have been adjusted to exclude currency translation effects. The accounts payable decrease includes $25.0 million representing a delayed billing payment resulting from a vendor’s inability to invoice the Company due to a software conversion.

The Company ended the current quarter with working capital of $183.4 million, which included cash and cash equivalents of $59.7 million as compared to working capital of $195.2 million, which included cash and cash equivalents of $66.5 million at March 30, 2003.

The Company utilized $6.9 million for net investing activities and $7.6 million in net financing activities during the current year-to-date period. The primary cash expenditures during this period included $7.5 million for capital expenditures and $8.4 million for the purchase of approximately 1.3 million common shares of Company stock. During the December quarter, the Company suspended its stock repurchase program.

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

On July 17, 2003, the Company announced that it had signed a non-binding letter of intent to acquire a majority position in Kaiping Polyester Enterprises Group Co. ("Kaiping") in Kaiping, Guangdong, P.R. China to manufacture and sell certain polyester and nylon products. It was anticipated that Unifi would own seventy-five percent (75%) of the company after the transaction was completed, which was estimated to have approximately $300 million in annual sales. On April 13, 2004, the Company announced that it had ceased joint venture discussions with Kaiping and Guangdong Kaiping Chunhui Co. Ltd. The Company is currently in the process of evaluating whether to pursue a "greenfield" strategy to produce its value-added yarn in China or whether it should pursue other joint venture opportunities that recently materialized as a result of the outcome of the discussions with Kaiping.

Due to the Company's financial results for the first nine months of this fiscal year, management is continuing to review all domestic and foreign operations in an effort to reduce costs. These efforts may result in future charges including plant closures, employee severance charges, and other consolidation costs.

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

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

As of March 28, 2004, the Company had no outstanding borrowings and had availability of $93.6 million under the terms of the Credit Agreement. Borrowings under the Credit Agreement bear interest at rates selected periodically by the Company of LIBOR plus 1.75% to 3.00% and/or prime plus 0.25% to 1.50%. The interest rate matrix is based on the Company's leverage ratio of funded debt to EBITDA, as defined by the Credit Agreement. The interest rate in effect at March 28, 2004, was 4.09%. Under the Credit Agreement, the Company pays an unused line fee ranging from 0.25% to 0.50% per annum on the unused portion of the commitment.

The Credit Agreement contains customary covenants for asset based loans which restrict future borrowings and capital spending and, if availability is less than $25.0 million at any time during the quarter, include a required minimum fixed charge coverage ratio of 1.1 to 1.0 and a required maximum leverage ratio of 5.0 to 1.0. At March 28, 2004, the Company was in compliance with all covenants under the Credit Agreement as it had availability in excess of $25.0 million.

Effective June 1, 2000, the Company and E.I. DuPont De Nemours and Company (DuPont) initiated a manufacturing alliance. The Alliance is intended to optimize Unifi's and DuPont's POY manufacturing facilities, increase manufacturing efficiency and improve product quality. Under the terms of the Alliance Agreements, DuPont and Unifi cooperatively run their polyester filament manufacturing facilities as a single operating unit. This consolidation involved the closing of the DuPont Cape Fear, North Carolina plant and optimizing production efficiencies by manufacturing commodity yarns for the Alliance in DuPont's Kinston, North Carolina plant and high-end specialty yarns in Yadkinville. The companies split equally the costs to complete the necessary plant consolidation and the benefits gained through asset optimization. Additionally, the companies collectively attempt to increase profitability through the development of new products and related technologies. Likewise, the costs incurred and benefits derived from the product innovations are split equally. DuPont and Unifi continue to own and operate their respective sites and employees remain with their respective employers. DuPont continues to provide POY to the marketplace and uses DuPont technology to expand the specialty product range at each company's sites. Unifi continues to provide textured yarn to the marketplace. At termination of the Alliance or at any time after June 1, 2005, DuPont has the right but not the obligation to sell to Unifi (a "Put") and Unifi has the right but not the obligation to purchase from DuPont (a "Call"), DuPont's U.S. polyester filament business for a price based on a mutually agreed fair market value. In the event Dupont exercises its Put or Unifi exercises its Call prior to the end of the sixth year of the Alliance, the purchase price of Dupont's business shall be within a range of $300.0 million to $600.0 million. Dupont's right to put its U.S. polyester filament business to Unifi and Unifi's obligation to purchase such business are subject to certain conditions, including the ability of the Company to obtain a reasonable amount of financing on commercially reasonable terms. The Company believes that its ability to finance the purchase of Dupont's U.S. polyester filament business will be partially dependant upon the level of underlying cash flows generated by such business; and it is unclear whether the cash flow levels expected to be generated by the business are sufficient at this time to enable the Company to obtain such financing. In the event that the Company does not purchase the DuPont U.S. polyester filament business, DuPont would have the right but not the obligation to purchase the Company's domestic POY facility for a price based on a mutually agreed fair market value. In the event Dupont exercises the aforesaid right to purchase within twelve months of receipt of its "Notice of Exercise" to the Company, then the purchase price for the Company's domestic POY facility shall be within a range of $125.0 million to $175.0 million. See Note 15 for additional information involving the Alliance.

On November 17, 2003, Dupont and Koch Industries, Inc. (Koch) announced the potential purchase by Koch of certain Dupont textile facilities including the Dupont Kinston facility which is a part of the Alliance. The Company was subsequently requested, and granted its consent, to the transaction involving the Kinston facility.

On April 30, 2004, Koch closed the aforementioned transaction, and henceforth, the Alliance Agreement is between Koch and the Company.

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

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

The Company accounts for its investment in PAL on the equity method of accounting and as of March 28, 2004, the Company's carrying investment in PAL (including goodwill value) was $142.4 million. During the nine months ended March 28, 2004, the Company had equity in losses relating to PAL of $6.5 million. The Company is unable at this time to determine the level of damages for which PAL may be liable or the impact of such liability on the Company, which impact could be material. The Company is continuing to review the circumstances surrounding PAL's involvement in the activities.

Outlook

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

Critical Accounting Policies

Restructuring Charges Resulting from Restructuring Activities.

SFAS No. 146 “Accounting for Costs Associated with Exit or Disposal Activities,” requires management to estimate certain costs associated with plant consolidations and plant closures. During this quarter, the Company’s polyester segment recorded write downs of plant, property, equipment and inventory as a result of decisions to close certain facilities in Europe. Some of the equipment is to be sold and some abandoned. The estimated salvage values are low, primarily due to the depressed market for used textile machinery. It is possible that the actual results will differ from assumptions and require adjustments to the original reserves.

Forward Looking Statements

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

Currency forward contracts are entered to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 60-80% of the sales value of these orders is covered by forward contracts. Maturity dates of the forward contracts attempt to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other income and expense. The Company also enters currency forward contracts for committed or anticipated equipment and inventory purchases. Generally, 50-75% of the asset cost is covered by forward contracts although 100% of the asset cost may be covered by contracts in certain instances. Forward contracts are matched with the anticipated date of delivery of the assets and gains and losses are recorded as a component of the asset cost for purchase transactions the Company is firmly committed. The latest maturity for all outstanding purchase and sales foreign currency forward contracts are July 2004 and March 2005, respectively.

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

	March 28, 2004	June 29, 2003
Foreign currency purchase contracts:		
Notional amount	$ 6,452	$ 2,926
Fair value	6,324	2,658
Net (gain) loss	$ 128	$ 268
Foreign currency sales contracts:		
Notional amount	$18,133	$18,530
Fair value	18,846	17,945
Net (gain) loss	$ (713)	$ (585)

The fair values of the foreign exchange forward contracts at the respective period-end dates are based on period-end forward currency rates. For the quarters ended March 28, 2004 and March 30, 2003, the total impact of foreign currency related items on the Condensed Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pre-tax loss of $0.1 million and $0.0 million, respectively. For the year-to-date periods ended March 28, 2004 and March 30, 2003, the total impact of foreign currency related items was a pre-tax loss of $0.3 million and pre-tax gain of $0.6 million, respectively.

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

Item 4. Controls and Procedures

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

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 28, 2004.

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

Part II. Other Information

Item 1. Legal Proceedings

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

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

On March 26, 2004, DuPont filed a Motion to File First Amended Demand For and Notice of Arbitration. DuPont's motion asked that DuPont's wholly-owned subsidiary, Invista, Inc., be added as a claimant in the arbitration proceeding.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

(e)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
12/29/03 – 1/28/04	600	$6.13	600	6,809,293
1/29/04 – 2/28/04	—	—	—	6,809,293
2/29/04 – 3/28/04	1,452	$5.03	1,452	6,807,841
Total	2,052(1)	$5.35	2,052	

(1) 1,752 shares were repurchased from former employees of the Company. 300 shares were repurchased from a current non-executive employee.

At the Company's Board meeting held on July 27, 2000, the Board approved an increase to the stock repurchase plan of 6,574,700 shares. This increase amended the total number of authorized shares eligible for repurchase to 10,000,000. To date, 3,192,159 shares have been repurchased pursuant to the total authorization. The plan does not currently have an expiration date.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(10) Change of Control Agreement between Unifi, Inc. and William M. Lowe, Jr. dated January 6, 2004, filed herewith.

(31a) Chief Executive Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

(31b) Chief Financial Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

(32a) Chief Executive Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

(32b) Chief Financial Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

(b) Reports on Form 8-K

The following report on Form 8-K was furnished during the fiscal quarter ended March 28, 2004:

January 21, 2004: Item 12. Results of Operations and Financial Condition. Second Quarter Earnings Release.

The following reports on Form 8-K were filed during the fiscal quarter ended March 28, 2004:

December 30, 2003: Item 5. Other Events. News Release: Unifi Updates Timetable for Completion of Kaiping Joint Venture. Item 7. Exhibits. News Release.

January 21, 2004: Item 5. Other Events. Update on Dupont Claim Regarding Alliance.

February 11, 2004: Item 5. Other Events. News Release: Equity Affiliate Informs Unifi of Pending Investigation. Item 7. Exhibits. News Release.

March 2, 2004: Item 5. Other Events. News Release: Unifi Announces Broad Restructuring Charges. Item 7. Exhibits. U.S. and European News Releases.

Signatures

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

UNIFI, INC.

Date: May 12, 2004

/s/ WILLIAM M. LOWE, JR.

William M. Lowe, Jr.
Vice President, Chief Operating Officer and Chief Financial Officer (Mr. Lowe is the Principal Financial Officer and has been duly authorized to sign on behalf of the Registrant.)

EXHIBIT (10)

CHANGE OF CONTROL AGREEMENT

THIS CHANGE OF CONTROL AGREEMENT (“Agreement”) between **UNIFI, INC.**, a New York Corporation (the “Company”), and William M. Lowe (“Executive”) effective the 6TH day of January, 2004 (the “Effective Date”).

WITNESSETH:

WHEREAS, The Executive recently joined the Company as its Vice President and C.F.O. and is considered as an integral part of the Company’s management; and

WHEREAS, the Company’s Board of Directors (hereinafter sometimes referred to as the “Board”) considers the establishment and maintenance of a sound and vital management to be essential in protecting and enhancing the best interests of the Company and its Shareholders, recognizes that the possibility of a Change in Control exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its Shareholders; and

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

WHEREAS, the Board has determined that it is appropriate to reinforce and encourage the continued attention and dedication of the Executive, as a member of the Company’s management, to his assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a Change in Control of the Company.

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

Section 1. Term: This Agreement shall terminate, except to the extent that any obligation of the Company hereunder remains unpaid as of such time, upon the earliest of (i) November 1, 2005 if a Change in Control of the Company has not occurred within such period; (ii) the termination of the Executive’s employment with the Company based on Death, Disability (as defined in Section 3(b)), Retirement (as defined in Section 3(c)), Cause (as defined in Section 3(d)) or by the Executive other than for Good Reason (as defined in Section 3(e)); and (iii) two years from the date of a Change in Control of the Company if the Executive has not voluntarily terminated his employment for Good Reason as of such time.

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

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

(b) Disability: If, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from his duties with the Company on a full-time basis for one hundred twenty (120) consecutive days or a period of one hundred eighty (180) days within twelve (12) consecutive months (including days before and after the change of control) and within 30 days after written notice of termination is thereafter given by the Company the Executive shall not have returned to the full-time performance of the Executive's duties, the Company may terminate this Agreement for "Disability."

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

(d) Cause: The Company may terminate the Executive’s employment for Cause. For purposes of this Agreement only, the Company shall have “Cause” to terminate the Executive’s employment hereunder only on the basis of fraud, misappropriation or embezzlement on the part of the Executive or malfeasance or misfeasance by said Executive in performing the duties of his office, as determined by the Board. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until there shall have been a meeting of the Board (after at least ten (10) days written notice to the Executive and an opportunity for the Executive to be heard before the Board), and the delivery to the Executive of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of said Board of Directors stating that in the good faith opinion of the Board the Executive was guilty of conduct set forth in the second sentence of this Section 3(d) and specifying the particulars thereof in detail.

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

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

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

(iii) any failure by the Company to continue in effect any benefit plan or arrangement (including, without limitation, the Company’s 401(k) Plan, group life insurance plan and medical, dental, accident and disability plans) in which the Executive is participating at the time of a Change in Control of the Company (or any other plans providing the Executive with substantially similar benefits) (hereinafter referred to as “Benefit Plans”), or the taking of any action by the Company which would adversely affect the Executive’s participation in or materially reduce the Executive’s benefits under any such Benefit Plan or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of a Change in Control of the Company;

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

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

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

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

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

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

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

(f) Notice of Termination: Any termination by the Company pursuant to Section 3(b), 3(c) or 3(d) shall be communicated by a Notice of Termination. For purposes of this Agreement, a "Notice of Termination" shall mean a written notice which shall indicate those specific termination provisions in this Agreement relied upon and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. For purposes of this Agreement, no such purported termination by the Company shall be effective without such Notice of Termination.

(g) Date of Termination: "Date of Termination" shall mean (a) if Executive's employment is terminated by the Company for Disability, 30 days after Notice of Termination is given to the Executive (provided that the Executive shall not have returned to the performance of the Executive's duties on a full-time basis during such 30 day period) or (b) if the Executive's employment is terminated by the Company for any other reason, the date on which a Notice of Termination is given; provided that if within 30 days after any Notice of Termination is given to the Executive by the Company the Executive notifies the Company that a dispute exists concerning the termination, the Date of Termination shall be the date the dispute is finally determined, whether by mutual agreement by the parties or otherwise or (c) the date the Executive notifies the Company in writing that he is terminating his employment and setting forth the Good Reason (as defined in Section 3(e)).

Section 4. Severance Compensation upon Termination of Employment. If the Company shall terminate the Executive's employment other than pursuant to Section 3(b), 3(c) or 3(d) or if the Executive shall voluntarily terminate his employment for Good Reason, then the Company shall pay to the Executive as severance pay an amount equal to 2.99 times the annualized aggregate annual compensation (or base salary if Executive's period of employment with the Company is less than one year) paid to the Executive by the Company or any of its subsidiaries during the five (5) calendar years (or the period of the Executive's employment with the Company if the Executive has been employed with the Company for less than five calendar years) preceding the Change in Control of the Company in twenty-four equal monthly installments beginning on the regular payroll date for salaried employees of the Company in the month of the Executive's Date of Termination; provided, however, that if the severance payment under this Section 4, either alone or together with other payments which the Executive has the right to receive from the Company, would constitute a "parachute payment" (as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")), such severance payment shall be reduced to the largest amount as will result in no portion of the severance payment under this Section 4 being subject to the excise tax imposed by Section 4999 of the Code. The determination of any reduction in the lump sum severance payment under this Section 4 pursuant to the foregoing proviso shall be made by the Company's Independent Certified Public Accountants, and their decision shall be conclusive and binding on the Company and the Executive.

Section 5. No Obligation to Mitigate Damages; No Effect on Other Contractual Rights: (a) The Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

(b) The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish the Executive's rights under any employment agreement or other contract, plan or employment arrangement with the Company.

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

(d) The Executive's account and rights in and under any retirement benefit or incentive plans, shall remain subject to the terms and conditions of the respective plans as they existed at the time of the termination of the Executive's employment.

Section 6. Successor to the Company: (a) The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Any failure of the Company to obtain such agreement prior to the effectiveness of any such succession or assignment shall be a material breach of this Agreement and shall entitle the Executive to terminate the Executive's employment for Good Reason. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 6 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law. If at any time during the term of this Agreement the Executive is employed by any corporation a majority of the voting securities of which is then owned by the Company, "Company" as used in Sections 3, 4 and 10 hereof shall in addition include such employer. In such event, the Company agrees that it shall pay or shall cause such employer to pay any amounts owed to the Executive pursuant to Section 4 hereof.

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

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

If to the Company:
Unifi, Inc.
P. O. Box 19109
Greensboro, NC 27419-9109
ATTENTION: General Counsel

(currently Charles F. McCoy)

If to the Executive:
Mr. William M. Lowe
____

____

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

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

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

(c) Prior to the Change in Control of the Company, as herein defined, this Agreement shall terminate if Executive shall resign, retire, become permanently and totally disabled, or die. This Agreement shall also terminate if Executive's employment as an executive officer of the Company shall have been terminated for any reason by the Board as constituted more than three (3) months prior to any Change in Control of the Company, as defined in Section 2 of this Agreement.

Section 9. Legal Fees and Expenses: The Company shall pay all legal fees and expenses which the Executive may incur as a result of the Company's contesting the validity, enforceability or the executive's interpretation of, or determinations under, this Agreement.

Section 10. Disclosure of Confidential Information. Executive agrees that:

(A) During the term of this Agreement and for a period of five (5) years after his Date of Termination, he will not disclose or make available to any person or other entity any trade secrets, Confidential Information, or "know-how" relating to the Company's, its affiliates' and subsidiaries', businesses without written authority from the Board, unless he is compelled to disclose it by judicial process.

Confidential Information - shall mean all information about the Company, its affiliates or subsidiaries, or relating to any of their products, services or any phase of their operations, not generally known to their Competitors or which is not public information, which Executive knows or acquired knowledge of during the term of his employment with the Company.

(B) ***Documents*** **—** under no circumstances shall Executive remove from the Company' offices any of the Company's books, records, documents, files, computer discs or information, reports, presentations, customer lists, or any copies of such documents for use outside of his employment with the Company, except as specifically authorized in writing by the Board.

Section 11. Non-Compete. Executive agrees that during the period of employment and for a period of two (2) years after his Date of Termination he will not, directly or indirectly:

(A) Seek employment or consulting arrangements with or offer advice, suggestions, or input to any Competitor of the Company; or

(B) Own any interest in, other than ownership of less than two percent (2%) of any class of stock of a publicly held corporation, manage, operate, control, be employed by, render advisory services to, act as a consultant to, participate in, assess or be connected with any Competitor of the Company, unless approved by the Board; or

(C) Solicit, induce, or attempt to induce any past or current customer of the Company (a) to cease doing business in whole or in part with or through the Company; or (b) to do business with any other person, firm, partnership, corporation, or other entity which sales products or performs services materially similar to or competitive with those provided by the Company; or

(D) Initiate, encourage or solicit for employment any person who is now employed or during the term of this Agreement becomes employed by the Company (or whose activities or services are dedicated to the Company).

Competitor - shall mean any individual, partnership, joint venture, firm, corporation, limited liability company, business trust, association, trust or other enterprise (whether or not incorporated) engaged in the business of developing, producing, manufacturing, selling and/or distributing a product or providing services similar to any product produced or service provided by the Company, its affiliates or subsidiaries.

Section 12. Remedy for violation of Sections 10 and 11. The Executive acknowledges that the Company has no adequate remedy at law and will be irreparably harmed if the Executive breaches or threatens to breach the provisions of Sections 10 or 11 of this Agreement, and therefore, agrees that the Company shall be entitled to injunctive relief to prevent any breach or threatened breach of such Sections and that the Company shall be entitled to specific performance of the terms of such Sections in addition to any other legal or equitable remedy it may have. Nothing in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies at law or in equity that it may have or any other rights that it may have under any other agreement.

13. Arbitration. Any dispute or controversy between the Company and the Executive, whether arising out of or relating to this Agreement, the breach of this Agreement, or otherwise, shall be settled by arbitration administered by the American Arbitration Association ("AAA") in accordance with its Commercial Arbitration Rules then in effect, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Any arbitration shall be held before a single arbitrator who shall be selected by the mutual agreement of the Company and the Executive, unless the parties are unable to agree to an arbitrator, in which case, the arbitrator will be selected under the procedures of the AAA. The arbitrator shall have the authority to award any remedy or relief that a court of competent jurisdiction could order or grant, including, without limitation, the issuance of an injunction. However, either party may, without inconsistency with this arbitration provision, apply to any court having jurisdiction over such dispute relief until the arbitration award is rendered or the controversy is otherwise resolved. Except as necessary in court proceedings to enforce this arbitration provision or an award rendered hereunder, or to obtain interim relief, neither a party nor an arbitrator may disclose the existence, content or results of any arbitration hereunder without the prior written consent of the Company and the Executive. The Company and the Executive acknowledge that this Agreement evidences a transaction involving interstate commerce. Notwithstanding any choice of law provision included in this Agreement, the United States Federal Arbitration Act shall govern the interpretation and enforcement of this arbitration provision. The arbitration proceeding shall be conducted in Greensboro, North Carolina or such other location to which the parties may agree. The Company shall pay the costs of any arbitrator appointed hereunder.

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

UNIFI, INC.

By: /s/ CHARLES F. McCOY
Charles F. McCoy
Vice President, Secretary & General Counsel

By: /s/ DONALD F. ORR
Donald F. Orr,
Chairman of the Compensation Committee of the Board of Directors

EXECUTIVE

/s/ WILLIAM M. LOWE (Seal)

William M. Lowe

EXHIBIT (31a)

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

I, Brian R. Parke, certify that:

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

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

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

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

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

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

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

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

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

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

Date: May 12, 2004

/s/ BRIAN R. PARKE

Brian R. Parke
Chairman and Chief Executive Officer

EXHIBIT (31b)

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

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

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

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

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

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

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

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

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

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

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

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

Date: May 12, 2004

/s/ WILLIAM M. LOWE, JR.

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

EXHIBIT (32a)

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

In connection with the Unifi, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended March 28, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian R. Parke, Chairman and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: May 12, 2004

By: /s/ BRIAN R. PARKE
Brian R. Parke
Chairman and Chief Executive Officer

EXHIBIT (32b)

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

In connection with the Unifi, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended March 28, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William M. Lowe, Jr., Vice President, Chief Operating Officer and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: May 12, 2004

By: /s/ WILLIAM M. LOWE, JR.
William M. Lowe, Jr.
Vice President, Chief Operating Officer and
Chief Financial Officer