Unifi Manufacturing Virginia, LLC
Form S-4/A
November 22, 2006
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As filed with the Securities and Exchange Commission on November 22, 2006

Registration No. 333-137972

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

UNIFI, INC.

(Exact name of Registrant as specified in its charter)

New York **(State or other jurisdiction of incorporation or organization)**	**2200** **(Primary Standard Industrial Classification Code Number)**	**11-2165495** **(IRS Employer Identification No.)**

P.O. Box 19109

7201 West Friendly Avenue

Greensboro, NC 27410

(336) 294-4410

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Charles F. McCoy, Esq.

P.O. Box 19109

7201 West Friendly Avenue

Greensboro, NC 27410

(336) 294-4410

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Lawrence G. Wee, Esq.

Paul, Weiss, Rifkind, Wharton & Garrison LLP

1285 Avenue of the Americas

New York, NY 10019-6064

212-373-3000

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in

accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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TABLE OF ADDITIONAL REGISTRANTS

Name	State or Other Jurisdiction of Incorporation or Organization	Primary Standard Industrial Classification Code Number	IRS Employer Identification Number
Unifi Manufacturing Virginia, LLC	North Carolina	2200	56-2001075
Unifi Manufacturing, Inc.	North Carolina	2200	56-2001082
Unifi Export Sales, LLC	North Carolina	2200	56-2001078
Unifi Sales and Distribution, Inc.	North Carolina	2200	56-2001079
Unifi International Service, Inc.	North Carolina	2200	56-1407930
GlenTouch Yarn Company, LLC	North Carolina	2200	56-2252356
Spanco Industries, Inc.	North Carolina	2200	56-1392167
Spanco International, Inc.	North Carolina	2200	56-1861046
Unifi Kinston, LLC	North Carolina	2200	56-2050030
Unifi Textured Polyester, LLC	North Carolina	2200	56-2085603
Unifi Technical Fabrics, LLC	North Carolina	2200	56-2177509
Charlotte Technology Group, Inc.	North Carolina	2200	56-2203343
UTG Shared Services, Inc.	North Carolina	2200	56-2170406
Unimatrix Americas, LLC	North Carolina	2200	86-1091016

The address of each of the additional registrants is 7201 West Friendly Avenue, Greensboro, North Carolina 27410.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 22, 2006

PRELIMINARY PROSPECTUS

Unifi, Inc.

Exchange Offer for $190,000,000

11 1/2% Senior Secured Notes due 2014

The Notes and the Guarantees

We are offering to exchange $190,000,000 in aggregate principal amount of our outstanding 11 1/2% Senior Secured Notes due 2014, which were issued on May 26, 2006 in a transaction exempt from registration under the Securities Act of 1933, as amended, or the Securities Act, and which we refer to as the initial notes, for a like aggregate principal amount of our 11 1/2% Senior Secured Notes due 2014, which we refer to as the exchange notes, whose issuance is registered under the Securities Act. The initial notes were issued, and the exchange notes will be issued, under an indenture dated as of May 26, 2006.

The exchange notes will mature on May 15, 2014. We will pay interest on the exchange notes on May 15 and November 15, beginning on November 15, 2006.

The exchange notes will be our senior secured obligations, will be *pari passu* in right of payment with any of our existing and future senior indebtedness and will be senior in right of payment to any existing or future subordinated indebtedness. The exchange notes will be unconditionally guaranteed on a senior, secured basis by each of our existing and future domestic restricted subsidiaries.

The exchange notes and guarantees will be secured by first-priority liens, subject to permitted liens, on substantially all of our and our subsidiary guarantors assets (other than the assets securing our obligations under our amended revolving credit facility on a first-priority basis, which consist primarily of accounts receivable and inventory), including, but not limited to, property, plant and equipment, the capital stock of our domestic subsidiaries and certain of our joint ventures and up to 65% of the voting stock of our first-tier foreign subsidiaries, whether now owned or hereafter acquired, except for certain excluded assets. The exchange notes and guarantees will be secured by second-priority liens, subject to permitted liens, on our and our subsidiary guarantors assets that secure our amended revolving credit facility on a first-priority basis.

Terms of the exchange offer

It will expire at 5:00 p.m., New York City time, on , 2006, unless we extend it.

If all the conditions to this exchange offer are satisfied, we will exchange all of our initial notes that are validly tendered and not withdrawn for exchange notes.

You may withdraw your tender of initial notes at any time before the expiration of this exchange offer.

The exchange notes that we will issue you in exchange for your initial notes will be substantially identical to your initial notes except that, unlike your initial notes, the exchange notes will have no transfer restrictions or registration rights.

The exchange notes that we will issue you in exchange for your initial notes are new securities with no established market for trading.

Before participating in this exchange offer, please refer to the section in this prospectus entitled Risk Factors commencing on page 22.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2006.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus the information we file with the SEC. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus. If we subsequently file updating or superseding information in a document that is incorporated by reference into this prospectus, the subsequent information will also become part of this prospectus and will supersede the earlier information.

We are incorporating by reference the following documents that we have filed with the SEC:

- our Annual Report on Form 10-K for the year ended June 25, 2006, as filed with the SEC on September 8, 2006, including the information incorporated by reference from our Proxy Statement filed with the SEC on September 26, 2006 in connection with the solicitation of proxies for the Annual Meeting of Shareholders of Unifi, Inc. held on October 25, 2006;

- our Current Reports on Form 8-K filed on July 31, 2006, October 26, 2006 (with respect to Items 1.01 and 8.01 only) and October 31, 2006; and

- our Quarterly Report on Form 10-Q for the quarter ended September 24, 2006, as filed with the SEC on November 3, 2006.

We are also incorporating by reference into the accompanying prospectus all of our future filings with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until this offering has been completed.

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You may request a copy of these filings at no cost, by writing or telephoning us at the following address:

Mr. Charles F. McCoy

Vice President, Secretary and General Counsel

Unifi, Inc.

P.O. Box 19109

Greensboro, NC 27419-9109

(336) 294-4410

MARKET SHARE, RANKING AND OTHER DATA

When we make statements in this prospectus about our industry or our position in our industry, we are making statements of our belief. These beliefs are based on data from various sources (including independent industry publications, reports by market research firms, surveys and forecasts), on estimates and assumptions that we have made based on that data and other sources and our knowledge of the markets for our products. While we believe our third party sources are reliable, we have not independently verified market and industry data provided by third parties. Accordingly, we cannot assure you that any of these assumptions are accurate or that our assumptions correctly reflect our position in our industry.

TRADEMARKS

We own or have rights to trademarks or trade names that we use in conjunction with the operation of our business. Each trademark, trade name or service mark of any other company appearing in this prospectus belongs to its holder. Use or display by us of other parties trademarks, trade names or service marks is not intended to and does not imply a relationship with, or endorsement or sponsorship by us of, the trademark, trade name or service mark owner.

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PROSPECTUS SUMMARY

This summary highlights certain information concerning our business and this exchange offer. It does not contain all of the information that may be important to you and to your investment decision. The following summary is qualified in its entirety by the more detailed information and consolidated financial statements and the related notes appearing elsewhere or incorporated by reference in this prospectus.

The term initial notes refers to the 11 1/2% Senior Secured Notes due 2014 that were issued on May 26, 2006 in a private offering. The term exchange notes refers to the 11 1/2% Senior Secured Notes due 2014 offered with this prospectus. The term notes refers to the initial notes and the exchange notes, collectively. Unless otherwise specified or the context requires otherwise, reference in this prospectus to the Company or Unifi or we, us, or our refers to Unifi, Inc., the issuer of the notes, and its direct and indirect subsidiaries on a consolidated basis. You should carefully read the entire prospectus and the information incorporated by reference into this prospectus, and should consider, among other things, the matters set forth under Risk Factors before deciding to invest in the notes.

Unifi

We are a diversified North American producer and processor of multi-filament polyester and nylon yarns, including specialty yarns with enhanced performance characteristics. We add value to the supply chain and enhance consumer demand for our products through the development and introduction of branded yarns that provide unique performance, comfort and aesthetic advantages. We manufacture partially oriented, textured, dyed, twisted and beamed polyester yarns as well as textured nylon and nylon covered spandex products. We sell our products to other yarn manufacturers, knitters and weavers that produce fabrics for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets. We maintain one of the industry s most comprehensive product offerings and emphasize quality, style and performance in all of our products. Our net sales, net loss and EBITDA were $738.8 million, $14.4 million and $47.5 million, respectively, for fiscal year 2006. See footnote 1 to Summary Historical Financial Data for the definition of EBITDA and a reconciliation of EBITDA to net loss.

The following charts illustrate the percentage of our net sales for fiscal year 2006 based on product type and end-use market:

Net Sales by Product Type

Net Sales by End-Use Market

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We work across the supply chain to develop and commercialize specialty yarns that provide performance, comfort, aesthetic and other advantages that enhance demand for our products. We have branded the premium portion of our specialty value-added yarns, which we refer to as premium value-added yarns, in order to distinguish our products in the marketplace. We currently have more than 20 premium value-added yarns in our portfolio, which we commercialize under several brand names, including Sorbtek®, A.M.Y.®, Mynx® UV, Reflexx®, MicroVista®, aio® and Repreve®.

A significant number of our customers, particularly in the apparel market, produce finished goods that they seek to make eligible for duty-free treatment in the regions covered by the North American Free Trade Agreement, or NAFTA, the U.S.-Dominican Republic-Central America Free Trade Agreement, or CAFTA, the Caribbean Basin Initiative, or CBI, and the Andean Trade Preferences Act, or ATPA, which we refer to collectively as the regional free-trade markets. When U.S. origin partially oriented yarn, or POY, is used to produce finished goods in these regional free-trade markets, and other origin criteria are met, then the finished goods are eligible for duty-free treatment.

We use advanced production processes to manufacture our high-quality yarns cost-effectively. We believe that our flexibility and experience in producing specialty yarns provides us with important development and commercialization advantages. We have state-of-the-art manufacturing operations in North and South America and participate in joint ventures in China, Israel and the United States.

Business Strengths

Leading Market Positions. We are a diversified producer and processor of multi-filament polyester and nylon yarns, and we are a leading North American producer and processor of polyester POY, polyester textured yarn, or polyester DTY, nylon DTY, twisted yarn, nylon covered yarn and dyed yarn. We have strong positions in nearly every other market in which we participate. We believe that our position as an industry leader stems from the high quality of our products, our product innovations, the efficiency of our operations and our customer service.

Our market leading position provides us with the following competitive advantages:

- we are able to realize significant economies of scale that enhance our productivity;
- we are able to service large customers due to the size and flexibility of our manufacturing facilities, distribution system and marketing staff; and
- we are an attractive strategic partner for retailers and companies with established brands.

Significant Expertise in Value-Added Product Development and Commercialization. We are a leader in the development, manufacturing and commercialization of innovative, value-added specialty yarns with enhanced performance characteristics such as moisture management, ultraviolet protection and anti-microbial and odor control properties. In addition, we have developed a line of products that are made from recycled materials in order to appeal to environmentally conscious consumers. Due to our reputation for delivering high-quality innovative products, we have developed strong customer relationships with a number of significant downstream customers, including Wal-Mart, Dick s Sporting Goods, Russell Athletic, Reebok and the U.S. military. We also have strong relationships with the largest regional fabric producers, enabling us to market to downstream customers in collaboration with those producers. Our expertise in developing and commercializing value-added performance products combined with our strong customer relationships allows us to enhance demand for our products.

Leading Supplier in the Regional Free-Trade Markets. We are the largest of only a few producers in the regional free-trade markets of polyester POY. When U.S.-origin POY is used to produce finished goods in these regional free-trade markets, and other origin criteria are met, then the finished goods are eligible for duty-free treatment. In the first half of fiscal year 2006, approximately 40% of sales from our U.S. polyester operations (approximately 80% of our polyester sales into the apparel market) and approximately 55% of sales from our U.S. nylon operations were to customers who purchase yarn from a signatory country to the NAFTA and CAFTA agreements or a beneficiary country to the CBI or ATPA programs to receive duty-free treatment for their finished goods. We estimate that the duty-free benefit of processing textiles and apparel under the terms of these regional free-trade agreements and duties preference programs typically represents a wholesale cost advantage of up to 30% on these finished goods. Our products, when incorporated by regional supply chain partners into finished goods that are eligible for duty-free treatment, are highly competitive in a number of product categories with imports from outside the applicable regions in terms of price and quality.

High-Quality Products and Flexible, Specification-Driven Production. We believe we are widely recognized by the industry as the leading producer of high-quality specification-driven products. Our operational expertise and state-of-the-art facilities allow us to efficiently produce high-quality yarns and specialty fibers with enhanced performance characteristics customized to fulfill our customers specifications. We recently realigned our pricing by product and instituted innovative pricing terms for small lot and made-to-order purchases to better pass on the retooling and inventory costs associated with smaller and unique orders.

Diverse Customer Base in a Variety of End-Markets. Our yarns and brands are found in a variety of end products, such as apparel, hosiery, home furnishings, automotive and industrial products. We sell polyester yarns to approximately 900 customers and nylon yarns to approximately 200 customers in a variety of geographic markets. In fiscal year 2006, our nylon segment had sales of $76.4 million to Sara Lee Branded Apparel, now Hanesbrands Inc., which is our only customer in excess of 10% of our consolidated revenues.

Experienced Management Team. Our management team has been integral in establishing our reputation for quality and innovation, developing and maintaining strong relationships with our customers, successfully integrating acquisitions and adjusting our operational infrastructure to match market conditions. Our management team has an average of nearly 18 years of experience in the industry.

Business Strategy

Focus on Manufacturing Efficiencies, Cost Reductions and Profitability. We intend to continue our focus on achieving manufacturing efficiencies, lowering costs and increasing profit margins. We have targeted several initiatives to achieve these goals, including:

- continuing to leverage our leading market positions;
- improving our product mix through increased sales of higher margin products, such as branded premium value-added yarns;
- maximizing utilization rates and matching overhead costs with operating rates in order to produce high-quality products with greater manufacturing efficiencies;
- adjusting our pricing policies and terms to customer specifications and changing market conditions; and
- efficiently integrating the facilities of newly acquired businesses.

As a result of our investment of approximately $1.3 billion in our production facilities since 1992, we do not currently anticipate that we will require any significant additional capital expenditures to replace or expand our production facilities over the next five years.

Grow our Sales of Premium Value-Added Products and Promote our Brands. We intend to leverage our expertise in product innovation, manufacturing and commercialization to continue to grow our sales of premium

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value-added yarns, which typically generate higher margins. We have grown our net sales of these value-added products from approximately $5.0 million in fiscal year 2001 to approximately $41.0 million in fiscal year 2006. We have branded these products to better market them to our downstream customers. In addition, we intend to increase demand for our premium value-added products by continuing to work with fabric producers and downstream customers on the development of new or improved products that meet the demands of consumers. As a result, downstream customers such as Wal-Mart, Dick s Sporting Goods, Russell Athletic, Reebok and the U.S. military have specified our products for use in their finished products.

Capitalize on Regional Free-Trade Markets. We are the largest of only a few producers in the regional free-trade markets of polyester POY. When U.S.-origin POY is used to produce finished goods in these regional free-trade markets, and other origin criteria are met, then the finished goods are eligible for duty-free treatment. We intend to continue to take advantage of our leading position in these markets to increase our market share with regional and domestic fabric producers who ship their products into the regional free-trade markets for further processing.

Expand Penetration of High-Growth Asian Markets. We intend to selectively increase our penetration of high-growth Asian markets such as China. China is currently one of the fastest growing consumers of specialty yarns, with a specialty yarn market almost as large as the entire U.S. yarn market. In addition, China currently imports approximately 30-35% of its specialty yarn needs. We have a 50/50 joint venture in China which combines our operational and marketing expertise with the customer base of a well-established, publicly-traded Chinese producer of fiber. This joint venture manufactures, processes and markets polyester filament yarn in China and provides us with an immediately accessible customer base in Asia at lower start-up costs and with fewer execution risks. Our joint venture allows us to pursue long-term, profitable revenue growth in Asia and service global brands and retailers who either produce or source from Asia.

Selectively Pursue Strategic Acquisitions. We believe that we are well-positioned to capitalize on the consolidation occurring in the North American synthetic yarn market due to our leading market position and our track record of successfully integrating acquisitions. Most of our competitors are smaller, privately-held companies which focus on only one or two of the markets we serve. We believe there are a number of acquisition opportunities in the North American market which can increase our profitability through the elimination of excess capacity and overhead costs. Accordingly, we plan to selectively pursue additional acquisitions that offer us the potential to strengthen our market position, increase our product offerings and/or achieve cost savings. For example, in 2005, we consolidated two of four recently acquired Kinston operating lines, reducing staffing levels from approximately 800 to approximately 260 employees and making the business profitable within twelve months.

Industry Overview

The textile and apparel market consists of natural and synthetic fibers used for apparel and non-apparel applications. The industry is characterized by dependence upon a wide variety of end-markets which primarily include apparel, home textiles, industrial and consumer products, floor coverings, fiber fill and tires. The apparel and hosiery markets account for 25% of total production, the floor covering market accounts for 32%, the industrial and consumer markets account for 20%, the home textiles market accounts for 13% and other end-uses account for 10%.

According to independent industry sources, the size of the global polyester textile filament market in calendar 2005 was estimated to be 29.5 billion pounds. The North American share of production within this global market was 2%. United States consumption of polyester textured yarn in 2005 was approximately 500 million pounds. Imports from foreign producers accounted for 21% of this textured yarn consumption.

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According to the National Council of Textile Organizations, the U.S. textile market s total shipments were $75.1 billion for the twelve month period ended November 30, 2005. Approximately $30 billion of capital expenditures has been invested in the textile industry over the past ten years. In calendar year 2005, the U.S. textile and apparel market employed more than 650,000 workers.

Textiles and apparel goods are made from natural fiber filament, such as cotton and wool, or synthetic fiber filament, such as polyester and nylon. Since 1980, global demand for polyester has grown steadily, and in 2003, polyester replaced cotton as the fiber with the largest percentage of sales worldwide. In 2005, polyester accounted for an estimated 40% of global fiber filament consumption and demand is projected to increase by 6% to 7% annually through 2009. The synthetic fiber sector accounts for approximately 55% of the U.S. textile and apparel market.

The synthetic filament industry includes petrochemical and raw material producers, fiber and yarn manufacturers (like Unifi), fabric and product producers, retailers and consumers. The following chart illustrates the supply chain in the synthetic filament industry:

Among synthetic filament yarn producers, pricing is highly competitive, with innovation, product quality and customer service being essential for differentiating the competitors within the industry. Both product innovation and product quality are particularly important, as product innovation gives customers competitive advantages and product quality provides for improved manufacturing efficiencies.

The North American synthetic yarn market has contracted since 1999, primarily as a result of intense foreign competition in finished goods on the basis of price. In addition, due to consumer preferences, demand for sheer hosiery products has declined in recent years, which negatively impacts nylon manufacturers. Despite this decline, U.S. retailers and other end-users have consistently expressed their need for a balanced procurement strategy with both global and regional production to satisfy their need for readily available production capacity, quick response times, specialized products, product changes based on customer feedback and more customized orders. As a result, the contraction in the U.S. synthetic yarn market continues, although we expect a lower rate of decline in the future as regional manufacturers continue to demand U.S. manufactured synthetic yarn. There has also been growing emphasis domestically towards premium value-added yarns as consumers, retailers and manufacturers demand products with enhanced performance characteristics. This emphasis on incorporating specialty synthetic yarn in finished goods has greatly increased domestic demand for value-added synthetic fibers.

The U.S. government has attempted to regulate the growth of certain textile and apparel imports by establishing quotas and duties on imports from countries that historically account for significant shares of U.S. imports. Under the January 1995 Agreement on Textiles and Clothing, the World Trade Organization, or WTO, began implementing a phased-in elimination of import quotas and a reduction of duties among its members, which culminated with the elimination of all remaining quotas for all members of WTO on January 1,

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2005. After extensive negotiations, the United States and China entered into a bilateral agreement in November 2005, reinstating quotas on a number of categories of Chinese textile and apparel products. These quotas under this agreement will end on December 31, 2008. Nevertheless, duties on imported textile and apparel products, including textile and apparel products from China, remain in effect. We believe that duties are a more effective method than quotas in providing protection for the U.S. textile and apparel industry.

In the Americas region, regional free-trade agreements, such as NAFTA and CAFTA, and U.S. unilateral duties preference programs, such as ATPA and CBI, have a significant impact on the flow of goods among the region and the relative costs of production. The cost advantages offered by these regional free-trade agreements and duties preference programs on finished goods which incorporate U.S.-origin synthetic fiber and the desire for quick inventory turns have enabled regional synthetic yarn producers to effectively compete with imported finished goods from lower wage-based countries. We estimate that the duty-free benefit of processing synthetic textiles and apparel finished goods under the terms of these regional free-trade agreements and duties preference programs typically represents a wholesale cost advantage of up to 30% on these finished goods. As a result of such cost advantages, it is expected that these regions will continue to grow in their supply of textiles to the United States.

The Refinancing Transactions

Tender Offer for 2008 Notes

On April 28, 2006, we commenced a tender offer for all of our then outstanding $250.0 million in aggregate principal amount of 6 1/2% senior unsecured notes due 2008, which we refer to as the 2008 notes, simultaneously with a consent solicitation from the holders of the 2008 notes to remove substantially all of the restrictive covenants and certain events of default under the indenture governing the 2008 notes. The tender offer expired on May 25, 2006, and $248.7 million in aggregate principal amount of 2008 notes were tendered in the tender offer, representing 99.5% of the then outstanding aggregate principal amount of 2008 notes. The tender consideration was 100% of the principal amount of 2008 notes validly tendered plus accrued but unpaid interest to, but not including, May 26, 2006. We paid a total consideration of $253.9 million for the tendered 2008 notes. The proceeds from the sale of the initial notes were used to fund, in part, the purchase price for the tendered 2008 notes. See Use of Proceeds. The 2008 notes that were not tendered and purchased in the tender offer will remain outstanding in accordance with their amended terms.

Amended Revolving Credit Facility

Concurrently with the closing of the offering of the initial notes, we amended our existing senior secured asset-based revolving credit facility, which we refer to as the old revolving credit facility, to extend its maturity to 2011, permit the initial notes offering and this exchange offer, give us the ability to request that the borrowing capacity be increased up to $150.0 million under certain circumstances and revise some of its other terms and covenants. Throughout this prospectus, we refer to the old revolving credit facility as so amended as the amended revolving credit facility. See Description of Other Indebtedness Amended Revolving Credit Facility. We drew $3.0 million under our amended revolving credit facility to fund, in part, the purchase price of the tendered 2008 notes. See Use of Proceeds.

The offering of the initial notes, the tender offer for the 2008 notes described above, the execution of the amended revolving credit facility and the use of proceeds from the initial notes offering, cash on hand and borrowings under the amended revolving credit facility to pay the consideration in the tender offer and all associated fees and expenses are collectively referred to throughout this prospectus as the refinancing transactions.

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Our Structure

The chart below summarizes our organizational structure after giving effect to the refinancing transactions as of the end of our fiscal year ended June 25, 2006.

(1) The amended revolving credit facility consists of a five-year revolving asset-based loan facility of $100.0 million. As of June 25, 2006, there were no amounts outstanding under our amended revolving credit facility, and based on our calculation as of that date, $94.2 million was available for borrowing under the borrowing base of this facility (net of $5.8 million to support outstanding letters of credit). See Description of Other Indebtedness Amended Revolving Credit Facility and Capitalization.
(2) Consists of wholly-owned domestic subsidiaries of Unifi, Inc. which are guarantors of the notes and co-borrowers under the amended revolving credit facility.
(3) Consists of Unifi do Brasil Ltda, Unifi Latin America S.A. and Unifi Holding I B.V. No more than 65% of the voting stock of the first-tier foreign subsidiaries are included in the collateral securing the notes on a first-priority basis.
(4) Consists of Parkdale America, LLC and Unifi-SANS Technical Fibers, LLC, of which we own 34% and 50%, respectively. The capital stock of these domestic joint ventures is included in the collateral securing the notes on a first-priority basis.
(5) Consists of Yihua Unifi Fibre Industry Company Limited and U.N.F. Industries, Ltd, of which we own 50% each. The capital stock of our current foreign joint ventures is not included in the collateral securing the notes because it is not held directly by Unifi or a guarantor of the notes.
(6) The capital stock of our other foreign subsidiaries is not included in the collateral securing the notes.

Unifi, Inc. is a corporation organized under the laws of the State of New York in 1969. Our principal offices are located at 7201 West Friendly Avenue, Greensboro, NC 27410; telephone number: (336) 294-4410. Our web site address is www.unifi.com. Our web site and the information contained on our web site are not a part of this prospectus.

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The following table describes the guarantors. All of their principal offices are located at 7201 West Friendly Avenue, Greensboro, NC 27410, telephone number: (336) 294-4410.

Name of Guarantor	Jurisdiction of Formation	Year of Formation
Unifi Manufacturing Virginia, LLC	North Carolina	1996
Unifi Manufacturing, Inc.	North Carolina	1996
Unifi Export Sales, LLC	North Carolina	1996
Unifi Sales and Distribution, Inc.	North Carolina	1996
Unifi International Service, Inc.	North Carolina	1984
GlenTouch Yarn Company, LLC	North Carolina	2001
Spanco Industries, Inc.	North Carolina	1983
Spanco International, Inc.	North Carolina	1993
Unifi Kinston, LLC	North Carolina	1997
Unifi Textured Polyester, LLC	North Carolina	1998
Unifi Technical Fabrics, LLC	North Carolina	1999
Charlotte Technology Group, Inc.	North Carolina	2000
UTG Shared Services, Inc.	North Carolina	1999
Unimatrix Americas, LLC	North Carolina	2003

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SUMMARY OF THE EXCHANGE OFFER

We are offering to exchange $190,000,000 in aggregate principal amount of our exchange notes for a like aggregate principal amount of our initial notes. In order to exchange your initial notes, you must properly tender them, and we must accept your tender. We will exchange all outstanding initial notes that are validly tendered and not validly withdrawn.

Exchange Offer	We will exchange our exchange notes for a like aggregate principal amount at maturity of our initial notes.
Expiration Date	This exchange offer will expire at 5:00 p.m., New York City time, on , 2006, unless we decide to extend it.
Conditions to the Exchange Offer	We will complete this exchange offer only if: there is no change in the laws and regulations which would impair our ability to proceed with this exchange offer, there is no change in the current interpretation of the staff of the SEC which permits resales of the exchange notes, there is no stop order issued by the SEC which would suspend the effectiveness of the registration statement which includes this prospectus or the qualification of the exchange notes under the Trust Indenture Act of 1939, there is no litigation or threatened litigation which would impair our ability to proceed with this exchange offer, and we obtain all the governmental approvals we deem necessary to complete this exchange offer. Please refer to the section in this prospectus entitled The Exchange Offer Conditions to the Exchange Offer.
Procedures for Tendering Initial Notes	To participate in this exchange offer, you must complete, sign and date the letter of transmittal or its facsimile and transmit it, together with your initial notes to be exchanged and all other documents required by the letter of transmittal, to U.S. Bank National Association, as exchange agent, at its address indicated under The Exchange Offer Exchange Agent. In the alternative, you can tender your initial notes by book-entry delivery following the procedures described in this prospectus. For more information on tendering your notes, please refer to the section in this prospectus entitled The Exchange Offer Procedures for Tendering Initial Notes.

Special Procedures for Beneficial Owners	If you are a beneficial owner of initial notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your initial notes in the exchange offer, you should contact the registered holder promptly and instruct that person to tender on your behalf.

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Guaranteed Delivery Procedures	If you wish to tender your initial notes and you cannot get the required documents to the exchange agent on time, you may tender your notes by using the guaranteed delivery procedures described under the section of this prospectus entitled The Exchange Offer Procedures for Tendering Initial Notes Guaranteed Delivery Procedure.
Withdrawal Rights	You may withdraw the tender of your initial notes at any time before 5:00 p.m., New York City time, on the expiration date of the exchange offer. To withdraw, you must send a written or facsimile transmission notice of withdrawal to the exchange agent at its address indicated under The Exchange Offer Exchange Agent before 5:00 p.m., New York City time, on the expiration date of the exchange offer.
Acceptance of Initial Notes and Delivery of Exchange Notes	If all the conditions to the completion of this exchange offer are satisfied, we will accept any and all initial notes that are properly tendered in this exchange offer on or before 5:00 p.m., New York City time, on the expiration date. We will return any initial notes that we do not accept for exchange to you without expense promptly after the expiration date. We will deliver the exchange notes to you promptly after the expiration date and acceptance of your initial notes for exchange. Please refer to the section in this prospectus entitled The Exchange Offer Acceptance of Initial Notes for Exchange; Delivery of Exchange Notes.
Federal Income Tax Considerations Relating to the Exchange Offer	Exchanging your initial notes for exchange notes will not be a taxable event to you for United States federal income tax purposes. Please refer to the section of this prospectus entitled Certain U.S. Federal Income Tax Considerations.
Exchange Agent	U.S. Bank National Association is serving as exchange agent in the exchange offer.
Fees and Expenses	We will pay all expenses related to this exchange offer. Please refer to the section of this prospectus entitled The Exchange Offer Fees and Expenses.
Use of Proceeds	We will not receive any proceeds from the issuance of the exchange notes. We are making this exchange offer solely to satisfy certain of our obligations under our registration rights agreement entered into in connection with the offering of the initial notes.
Consequences to Holders Who Do Not Participate in the Exchange Offer	If you do not participate in this exchange offer: except as set forth in the next paragraph, you will not necessarily be able to require us to register your initial notes under the Securities Act,

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- you will not be able to resell, offer to resell or otherwise transfer your initial notes unless they are registered under the Securities Act or unless you resell, offer to resell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act, and

- the trading market for your initial notes will become more limited to the extent other holders of initial notes participate in the exchange offer.

You will not be able to require us to register your initial notes under the Securities Act unless you notify us prior to 20 business days following the completion of the exchange offer that:

- you were prohibited by law or SEC policy from participating in the exchange offer;

- you may not resell the exchange notes you acquired in the exchange offer to the public without delivering a prospectus and the prospectus contained in the exchange offer registration statement is not appropriate or available for such resales by you; or

- you are a broker-dealer and hold initial notes acquired directly from us or any of our affiliates.

In these cases, the registration rights agreement requires us to file a registration statement for a continuous offering in accordance with Rule 415 under the Securities Act for the benefit of the holders of the initial notes described in this paragraph. We do not currently anticipate that we will register under the Securities Act any notes that remain outstanding after completion of the exchange offer.

Please refer to the section of this prospectus entitled The Exchange Offer Your Failure to Participate in the Exchange Offer Will Have Adverse Consequences.

Resales

It may be possible for you to resell the notes issued in the exchange offer without compliance with the registration and prospectus delivery provisions of the Securities Act, subject to the conditions described under Obligations of Broker-Dealers below.

To tender your initial notes in this exchange offer and resell the exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act, you must make the following representations:

- you are authorized to tender the initial notes and to acquire exchange notes, and we will acquire good and unencumbered title to the initial notes tendered, the exchange notes acquired by you are being acquired in the ordinary course of business,

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you have no arrangement or understanding with any person to participate in a distribution of the exchange notes and are not participating in, and do not intend to participate in, the distribution of such exchange notes,

you are not an affiliate, as defined in Rule 405 under the Securities Act, of ours, or you will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable,

if you are not a broker-dealer, you are not engaging in, and do not intend to engage in, a distribution of exchange notes, and

if you are a broker-dealer, initial notes to be exchanged were acquired by you as a result of market-making or other trading activities and you will deliver a prospectus in connection with any resale, offer to resell or other transfer of such exchange notes.

Please refer to the sections of this prospectus entitled The Exchange Offer Procedures for Tendering Initial Notes Proper Execution and Delivery of Letters of Transmittal, Risk Factors Risk Related to the Exchange Offer Some persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange notes and Plan of Distribution.

Obligations of Broker-Dealers

If you are a broker-dealer (1) that receives exchange notes, you must acknowledge that you will deliver a prospectus in connection with any resales of the exchange notes, (2) who acquired the initial notes as a result of market-making or other trading activities, you may use the exchange offer prospectus as supplemented or amended, in connection with resales of the exchange notes, or (3) who acquired the initial notes directly from the issuer in the initial offering and not as a result of market-making and trading activities, you must, in the absence of an exemption, comply with the registration and prospectus delivery requirements of the Securities Act in connection with resales of the exchange notes.

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Summary of Terms of the Exchange Notes

Issuer	Unifi, Inc.
Exchange Notes	$190,000,000 million in aggregate principal amount of 11 $^{1}/2$% Senior Secured Notes due 2014. The forms and terms of the exchange notes are the same as the form and terms of the initial notes except that the issuance of the exchange notes is registered under the Securities Act, will not bear legends restricting their transfer and the exchange notes will not be entitled to registration rights under our registration rights agreement. The exchange notes will evidence the same debt as the initial notes, and both the initial notes and the exchange notes will be governed by the same indenture.
Maturity Date	The exchange notes will mature on May 15, 2014.
Interest Payment Dates	May 15 and November 15 of each year, commencing on November 15, 2006.
Ranking	The exchange notes will be our senior secured obligations. Accordingly, they will rank:

- *pari passu* in right of payment with any of our existing and future senior indebtedness;
- senior in right of payment to any of our existing and future subordinated indebtedness;
- effectively subordinated to indebtedness under our amended revolving credit facility to the extent of the collateral securing such indebtedness on a first-priority basis;
- effectively senior to all of our existing and future indebtedness to the extent of the collateral securing the exchange notes on a first-priority basis; and
- effectively subordinated to any existing and future indebtedness and other liabilities of our non-guarantor subsidiaries (other than indebtedness and liabilities owed to us or one of our guarantor subsidiaries).

As of June 25, 2006, we and the guarantor subsidiaries had total indebtedness of $208.4 million, including $190.0 million outstanding under the initial notes and $1.3 million outstanding under the 2008 notes, all of which was senior debt. As of the same date, there were no amounts outstanding under our amended revolving credit facility, and based on our calculation as of that date, $94.2 million was available for borrowing under the borrowing base of this facility (net of $5.8 million to support outstanding letters of credit). As of June 25, 2006, the notes were effectively subordinated to $19.9 million of indebtedness and other liabilities of our non-guarantor subsidiaries.

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Subsidiary Guarantees

The exchange notes will be jointly and severally guaranteed on a senior secured basis by our existing and future domestic restricted subsidiaries. In the future, the guarantees may be released or terminated under certain circumstances. Each subsidiary guarantee will rank:

- *pari passu* in right of payment with any existing and future senior indebtedness of the guarantor subsidiary;
- senior in right of payment to any existing and future subordinated indebtedness of the guarantor subsidiary;
- effectively subordinated to indebtedness under our amended revolving credit facility to the extent of such subsidiary guarantor s collateral securing such indebtedness on a first-priority basis; and
- effectively senior to any existing and future indebtedness of the guarantor subsidiary to the extent of such subsidiary guarantor s collateral securing the exchange notes on a first-priority basis.

Security

The exchange notes and guarantees will be secured by first-priority liens, subject to permitted liens, on substantially all of our and our subsidiary guarantors assets (other than inventory, accounts receivable, general intangibles (other than uncertificated capital stock of subsidiaries and other persons), investment property (other than capital stock of subsidiaries and other persons), chattel paper, documents, instruments, supporting obligations, letter of credit rights, deposit accounts and other related personal property and all proceeds relating to any of the above, that secure our amended revolving credit facility on a first-priority basis), including, but not limited to, the property, plant and equipment, the capital stock of our domestic subsidiaries and certain of our joint ventures, up to 65% of the voting stock of our first-tier foreign subsidiaries now owned or hereafter acquired by us and our subsidiary guarantors, except for certain excluded assets. The exchange notes and guarantees will be secured by second-priority liens, subject to permitted liens, on our and our subsidiary guarantors assets that secure our amended revolving credit facility on a first-priority basis. Our obligations under our amended revolving credit facility are secured by second-priority liens, subject to permitted liens, on our and our subsidiary guarantors assets that will secure the exchange notes and guarantees on a first-priority basis. See Description of the Notes Security.

The liens on the collateral securing the exchange notes and obligations under our amended revolving credit facility will be subject to the contractual provisions of an intercreditor agreement. See Description of the Notes Security. The security interests of the holders of the exchange notes in the collateral are subject to other important limitations and exceptions which are described under the sections Risk Factors Risks Related to The Notes and This Offering and Description of the Notes.

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Optional Redemption	At any time prior to May 15, 2009, we may redeem up to 35% of the principal amount of the exchange notes with the net cash proceeds of certain equity offerings at the redemption prices set forth under Description of the Notes Optional Redemption.
	On and after May 15, 2010, we may redeem the exchange notes, in whole or in part, at the redemption prices set forth under Description of the Notes Optional Redemption.
Mandatory Offer to Repurchase	If a change of control occurs, we must offer to repurchase the exchange notes at the redemption price set forth under Description of the Notes Repurchase at the Option of Holders Change of Control.
Covenants	We issued the initial notes, and will issue the exchange notes, under an indenture among us, our guarantor subsidiaries and U.S. Bank National Association, as trustee. The indenture, among other things, restricts our ability and the ability of our restricted subsidiaries to:
	make investments;
	incur additional indebtedness and issue disqualified stock;
	pay dividends or make distributions on capital stock or redeem or repurchase capital stock;
	create liens;
	incur dividend or other payment restrictions affecting subsidiaries;
	sell assets;
	merge or consolidate with other entities; and
	enter into transactions with affiliates.
	These covenants are subject to a number of important exceptions and qualifications. See Description of the Notes Certain Covenants.
Use of Proceeds	We will not receive any proceeds from the issuance of the exchange notes in exchange for the outstanding initial notes. We are making this exchange solely to satisfy our obligations under the registration rights agreement entered into in connection with the offering of the initial notes.

Absence of a Public Market for the Exchange Notes	The exchange notes are new securities with no established market for them. A market for the exchange notes may not develop, and if a market develops, it may not be liquid. Please refer to the section of this prospectus entitled Risk Factors Risks Related to The Notes and This Offering There is no established trading market for the exchange notes and you may not be able to sell them quickly or at the price that you paid.

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Form of the Exchange Notes	The exchange notes will be represented by one or more permanent global securities in registered form deposited on behalf of The Depository Trust Company with U.S. Bank National Association, as custodian. You will not receive exchange notes in certificated form unless one of the events described in the section of this prospectus entitled Description of the Notes Exchange of Global Notes for Certificated Notes occurs. Instead, beneficial interests in the exchange notes will be shown on, and transfers of these exchange notes will be effected only through, records maintained in book-entry form by The Depository Trust Company with respect to its participants.

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PRESENTATION OF FINANCIAL INFORMATION

Our fiscal year is a 52 or 53 week fiscal year which ends on the last Sunday in June. Each 52 week fiscal year is divided into four periods of 13 weeks. Each 53 week fiscal year is divided into four periods of 13, 13, 13 and 14 weeks. In this prospectus, fiscal year 2006 is the fiscal year ending June 25, 2006, fiscal year 2005 is the fiscal year ended June 26, 2005, and fiscal year 2004 is the fiscal year ended June 27, 2004. Our fiscal years 2006, 2005, and 2004 had 52 weeks.

In July 2004, we announced the closing of our European manufacturing operations and associated sales offices. We ceased operating our dyed facility in Manchester, England, in June 2004 and ceased our manufacturing operations in Ireland in October 2004. We ceased all other European operations by June 2005 and sold the real property, plant and equipment of our European division in fiscal years 2005 and 2006. In July 2005, we announced that we had decided to exit the sourcing business and, as of the end of the third quarter of fiscal year 2006, we had substantially liquidated the business. Accordingly, the consolidated financial statements included in this prospectus have been restated to present these operations as discontinued operations for all periods presented.

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SUMMARY HISTORICAL FINANCIAL DATA

The summary historical financial data set forth below as of June 25, 2006 and for each of the fiscal years ended June 25, 2006, June 26, 2005 and June 27, 2004 have been derived from, and should be read together with, our audited historical consolidated financial statements and the accompanying notes included elsewhere in this prospectus. All of the historical financial data should also be read in conjunction with Selected Historical Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal Years Ended		
	June 25, 2006	June 26, 2005	June 27, 2004
		(in thousands)	
Statements of operations data:			
Net sales	$ 738,825	$ 793,796	$ 666,383
Cost of sales	696,055	762,717	625,983
Selling, general and administrative expenses	41,534	42,211	45,963
Provision for bad debts	1,256	13,172	2,389
Interest expense	19,247	20,575	18,698
Interest income	(4,489)	(2,152)	(2,152)
Other (income) expense, net	(3,118)	(2,300)	(2,590)
Equity in (earnings) losses of unconsolidated affiliates	(825)	(6,938)	6,877
Minority interest (income) expense		(530)	(6,430)
Restructuring charges (recovery)	(254)	(341)	8,229
Arbitration costs and expenses			182
Alliance plant closure costs (recovery)			(206)
Write down of long-lived assets	2,366	603	25,241
Goodwill impairment			13,461
Loss from early extinguishment of debt	2,949		
Loss from continuing operations before income taxes and extraordinary item	(15,896)	(33,221)	(69,262)
Benefit for income taxes	(1,170)	(13,483)	(25,113)
Loss from continuing operations before extraordinary item	(14,726)	(19,738)	(44,149)
Income (loss) from discontinued operations, net of tax	360	(22,644)	(25,644)
Loss before extraordinary item	(14,366)	(42,382)	(69,793)
Extraordinary gain net of taxes of $0		1,157	
Net loss	$ (14,366)	$ (41,225)	$ (69,793)
Other financial data:			
EBITDA(1)	$ 47,531	$ 37,901	$ 3,510
Depreciation	48,669	51,542	56,226
Capital expenditures	(11,988)	(9,422)	(11,124)
Net cash provided by (used in) continuing operations:			
Operating activities	30,093	28,785	11,380
Investing activities	(29,230)	(4,691)	(5,777)
Financing activities	(90,174)	82	(8,467)

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	As of June 25, 2006 (in thousands)
Balance sheet data:	
Cash and cash equivalents	$ 35,317
Property, plant and equipment	916,337
Investments in unconsolidated affiliates	190,217
Total assets	732,637
Total debt	208,440
Total liabilities	349,684
Total shareholders equity	382,953

(1) EBITDA represents net loss before net interest, taxes, depreciation and amortization and loss or income from discontinued operations. We present EBITDA as a supplemental measure of our performance and ability to service debt. We also present EBITDA because we believe such measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry and in measuring the ability of high-yield issuers to meet debt service obligations.

We believe EBITDA is an appropriate supplemental measure of debt service capacity, because cash expenditures on interest are, by definition, available to pay interest, and tax expense is inversely correlated to interest expense because tax expense goes down as deductible interest expense goes up; depreciation and amortization are non-cash charges.

In evaluating EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Our presentation of EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. EBITDA is not a measurement of our financial performance under generally accepted accounting principles in the United States, or GAAP, and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with GAAP or as an alternative to cash flow from operating activities as a measure of our liquidity.

Our EBITDA measure has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- it does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, our working capital needs;
- it does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and our EBITDA measure does not reflect any cash requirements for such replacements;
- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- it does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations;
- it does not reflect limitations on or costs related to transferring earnings from our subsidiaries to us; and
- other companies in our industry may calculate this measure differently than we do, limiting its usefulness as a comparative measure.

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The following table presents our calculation of EBITDA reconciled to net loss:

	Fiscal Years Ended		
	June 25, 2006	June 26, 2005	June 27, 2004
		(in thousands)	
Net loss	$ (14,366)	$ (41,225)	$ (69,793)
Net interest and amortization expense	14,758	18,423	16,546
Depreciation	48,669	51,542	56,226
Income taxes	(1,170)	(13,483)	(25,113)
Loss (income) from discontinued operations(a)	(360)	22,644	25,644
EBITDA(b)	$ 47,531	$ 37,901	$ 3,510

(a) In July 2004, we announced the closing of our European manufacturing operations and associated sales offices. We ceased operating our dyed facility in Manchester, England in June 2004 and ceased our manufacturing operations in Ireland in October 2004. We ceased all other European operations by June 2005 and sold the real property, plant and equipment of our European division in fiscal years 2005 and 2006. In July 2005, we announced that we had decided to exit the sourcing business and, as of the end of fiscal year 2006, we had fully liquidated the business.

(b) EBITDA includes $1.8 million, $0.8 million and $0.6 million of interest income at Unifi do Brasil, Ltda, our Brazilian subsidiary, that were recorded as other (income) expenses, net and would, if recorded as interest income, offset our net interest expense in fiscal years 2006, 2005 and 2004, respectively. Giving effect to such offsets, EBITDA would have been $45.7 million, $37.1 million and $2.9 million for fiscal years 2006, 2005 and 2004, respectively. We expect to record such amounts as interest income in future periods.

The following table reconciles EBITDA to net cash provided by continuing operating activities:

	Fiscal Years Ended		
	June 25, 2006	June 26, 2005	June 27, 2004
		(in thousands)	
EBITDA	$ 47,531	$ 37,901	$ 3,510
Extraordinary gain		(1,157)	
Net interest and amortization expense	(14,758)	(18,423)	(16,546)
Amortization of debt fees and discounts	1,276	1,350	1,377
Net (income) loss of unconsolidated equity affiliates, net of tax	1,945	(2,302)	8,695
Income tax reclassifications from deferreds and other related items	1,170	13,483	25,113
Net (gain) loss on asset sales	(1,755)	(1,770)	(3,227)
Non-cash portion of loss on extinguishment of debt	1,793		
Non-cash portion of restructuring charges (recovery)	(254)	(341)	7,155
Non-cash write down of long-lived assets	2,366	603	25,241
Non-cash effect of goodwill impairment			13,461
Deferred income taxes	(7,776)	(19,057)	(28,201)
Provision for bad debts	1,256	13,172	2,389
Change in surrender value of life insurance	1,643	(1,077)	3,107
Minority interest		(551)	(6,148)
Other	148	(461)	(731)
Change in assets and liabilities			
Receivables	10,592	(1,504)	(8,954)
Inventories	(5,844)	20,574	(813)
Other current assets	(1,278)	(901)	(668)
Accounts payables and accrued expenses	(8,504)	(10,933)	(13,539)
Income taxes	542	179	159

Net cash provided by continuing operating activities	$ 30,093	$ 28,785	$ 11,380

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The following items can be considered in addition to EBITDA:

	Fiscal Years Ended		
	June 25, 2006	June 26, 2005 (in thousands)	June 27, 2004
Income (loss) from equity affiliates, net of cash distributions(a)	$ 1,945	$ 4,188	$ 10,042
Restructuring charges (recovery)(b)	(254)	(341)	8,229
Alliance plant closure recovery			(206)
Non-cash asset impairment charges(c)	2,366	603	38,702
Non-cash loss on obsolete inventory(d)		3,126	
Non-cash compensation expense	676	81	192
Hedging (gain) loss(e)	660	(1,067)	548
Gain on sale of assets(f)			(4,049)
Non-cash accounts receivable write-off(g)		8,184	

(a) Represents the elimination of net income or loss from equity investees and the recognition of cash income and other distributions received from those equity investees in the relevant periods. Cash distributions received in fiscal years 2006, 2005 and 2004 were $2.8 million, $11.1 million and $3.2 million, respectively. See Management s Discussion and Analysis of Financial Condition and Results of Operations Joint Ventures and Other Equity Investments.

(b) Represents restructuring charges and recoveries in connection with:

- in fiscal year 2006, a re-organization of certain business operations;
- in the fourth quarter of fiscal year 2005, the recovery of a restructuring reserve taken in fiscal year 2001 relating to the closure of a facility related to our alliance with E.I. DuPont de Nemours, or DuPont; and
- in fiscal year 2004, employee severance costs related to domestic restructuring efforts and the closure of our air jet texturing facility in Altamahaw, NC.

See Management s Discussion and Analysis of Financial Condition and Results of Operations Corporate Restructurings and Recent Developments and Outlook.

(c) Represents non-cash impairment charges with respect to:

- in fiscal year 2006, the closing of a nylon plant, warehouse and central distribution center located in Mayodan, NC;
- in fiscal year 2005, the write down of 166 machines held by our nylon business in connection with their sale; and
- in fiscal year 2004, the write down of $13.5 million of goodwill related to Unifi Textured Polyester, LLC, a domestic polyester joint venture, and a $25.2 million impairment of fixed assets in our domestic polyester segment.

See Note 14 to our audited consolidated financial statements.

(d) In the fourth quarter of fiscal year 2005, we reduced our inventories, including certain slow-moving items, in order to improve our cash position and reduce our working capital requirements. This item represents the difference between the carrying value of such slow-moving inventory and the sales price that was realized.

(e) Relates to gains and losses relating to the purchase of raw materials and foreign currency hedging activities in the ordinary course of business. See Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosure About Market Risk.

(f) Relates to the sale of a corporate aircraft.

(g) Represents a non-cash, non-recurring charge relating to the write-off of accounts receivable of Collins & Aikman Corporation in connection with the bankruptcy of Collins & Aikman. Our bad debt expense for fiscal years 2006, 2005 and 2004 was $1.3 million, $13.2 million and $2.4 million, respectively. Excluding the bad debt expense of $8.2 million associated with the bankruptcy of Collins & Aikman, our bad debt expense for fiscal year 2005 would have been $5.0 million.

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RISK FACTORS

You should carefully consider each of the following risks and all other information contained in this prospectus before deciding to invest in the notes. The risks and uncertainties described below are not the only ones we face. If any of the following risks actually occur, our business, financial condition and/or operating results could be materially adversely affected, which, in turn, could adversely affect our ability to pay interest or principal on the notes. In such a case, you may lose all or part of your original investment.

Risks Related to The Notes and This Offering

Our substantial level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the notes and our other indebtedness.

We have substantial indebtedness. As of June 25, 2006, we had a total of $208.4 million of debt outstanding, including $190.0 million outstanding under the initial notes, and $1.3 million outstanding under the 2008 notes. As of the same date, there were no amounts outstanding under our amended revolving credit facility.

Our outstanding indebtedness could have important consequences to you, including the following:

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

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

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

We and our subsidiaries may be able to incur substantial additional indebtedness, including additional secured indebtedness, in the future. The terms of the indenture and our amended revolving credit facility restrict, but do not completely prohibit, us from doing so. Our amended revolving credit facility permits up to $100.0 million of borrowings, which we can request be increased to $150.0 million under certain circumstances, with a borrowing base specified in the credit facility as equal to specified percentages of eligible accounts receivable and inventory. All of those borrowings, if any, will rank equal in right of payment to the notes and guarantees and will be effectively senior to the notes to the extent secured by first-priority liens in certain of our and our subsidiary guarantors assets, primarily accounts receivable and inventory. See Description of Other Indebtedness Amended Revolving Credit Facility. In addition, the indenture allows us to issue additional notes

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under certain circumstances, which will also be guaranteed by the subsidiary guarantors and will share in the collateral that secures the notes and guarantees. The indenture also allows us to incur certain other additional secured debt and will allow our foreign subsidiaries to incur additional debt, which would be effectively senior to the notes. In addition, the indenture does not prevent us from incurring other liabilities that do not constitute indebtedness. See Description of the Notes. If new debt or other liabilities are added to our current debt levels, the related risks that we now face could intensify.

We will require a significant amount of cash to service our indebtedness, and our ability to generate cash depends on many factors beyond our control.

For fiscal year 2006, after giving effect to the refinancing transactions, interest expense, net, would have been approximately $24.2 million. Our principal sources of liquidity are cash flow generated from operations and borrowings under our amended revolving credit facility. Our ability to make payments on and to refinance our indebtedness, including the notes, and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Our business may not generate cash flow from operations, and future borrowings may not be available to us under our amended revolving credit facility in an amount sufficient to enable us to pay our indebtedness, including the notes, and to fund our other liquidity needs. If we are not able to generate sufficient cash flow or borrow under our amended revolving credit facility for these purposes, we may need to refinance or restructure all or a portion of our indebtedness, including the notes, on or before maturity, reduce or delay capital investments or seek to raise additional capital. We may not be able to implement one or more of these alternatives on terms acceptable to us, or at all. The terms of our existing or future debt agreements may restrict us from adopting any of these alternatives. The failure to generate sufficient cash flow or to achieve any of these alternatives could materially adversely affect the value of the notes and our ability to repay them.

In addition, without such refinancing, we could be forced to sell assets to make up for any shortfall in our payment obligations under unfavorable circumstances. Our amended revolving credit facility and the indenture limit our ability to sell assets and also restrict the use of proceeds from any such sale. Furthermore, the notes and our amended revolving credit facility are secured by substantially all of our assets. Therefore, we may not be able to sell our assets quickly enough or for sufficient amounts to enable us to meet our debt service obligations.

The indenture and our amended revolving credit facility impose significant operating and financial restrictions, which may prevent us from pursuing certain business opportunities and taking certain actions.

The indenture and our amended revolving credit facility impose significant operating and financial restrictions on us. These restrictions will limit or prohibit, among other things, our ability to:

- incur and guarantee indebtedness or issue preferred stock;
- repay subordinated indebtedness prior to its stated maturity;
- pay dividends or make other distributions on or redeem or repurchase our stock;
- issue capital stock;
- make certain investments or acquisitions;
- create liens;

sell certain assets or merge with or into other companies;

enter into certain transactions with stockholders and affiliates;

make capital expenditures; and

restrict dividends, distributions or other payments from our subsidiaries.

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You should read the discussions under the headings Description of Other Indebtedness Amended Revolving Credit Facility and Description of the Notes Certain Covenants for further information about these covenants.

In addition, our amended revolving credit facility also requires us to meet a minimum fixed charge ratio test if borrowing capacity is less than $25.0 million at any time during the quarter and restricts our ability to make capital expenditures or prepay certain other debt. We may not be able to maintain this ratio. These restrictions could limit our ability to plan for or react to market conditions or meet our capital needs. We may not be granted waivers or amendments to our amended revolving credit facility if for any reason we are unable to meet its requirements, or we may not be able to refinance our debt on terms acceptable to us, or at all.

The breach of any of these covenants or restrictions could result in a default under the indenture or our amended revolving credit facility. An event of default under our debt agreements would permit some of our lenders to declare all amounts borrowed from them to be due and payable.

Other secured indebtedness, including under our amended revolving credit facility, is effectively senior to the notes to the extent of the value of the collateral securing such facility on a first-priority basis.

Our amended revolving credit facility is collateralized by a first-priority lien, subject to permitted liens, in, among other things, certain of our and the amended revolving credit facility guarantors assets, primarily accounts receivable and inventory. In addition, the indenture permits us to incur additional indebtedness secured on a first-priority basis by such assets in the future. The first-priority liens in the collateral securing indebtedness under our amended revolving credit facility and any such future indebtedness are higher in priority as to such collateral than the security interests securing the notes and the guarantees. The notes and the related guarantees are secured, subject to permitted liens, by a second-priority lien in the assets that secure our amended revolving credit facility on a first-priority basis. Holders of the indebtedness under our amended revolving credit facility and any other indebtedness collateralized by a first-priority lien in such collateral are entitled to receive proceeds from the realization of value of such collateral to repay such indebtedness in full before the holders of the notes will be entitled to any recovery from such collateral. As a result, holders of the notes will only be entitled to receive proceeds from the realization of value of assets securing our amended revolving credit facility on a first-priority basis after all indebtedness and other obligations under our amended revolving credit facility and any other obligations secured by first-priority liens on such assets are repaid in full. As a result, the notes are effectively junior in right of payment to indebtedness under our amended revolving credit facility and any other indebtedness collateralized by a higher-priority lien in our assets, to the extent of the realizable value of such collateral.

The lien ranking provisions of the indenture and other agreements relating to the collateral securing the notes limit the rights of holders of the notes with respect to that collateral, even during an event of default.

The rights of the holders of the notes with respect to the collateral that secure the notes on a second-priority basis are substantially limited by the terms of the lien ranking agreements set forth in the indenture and the intercreditor agreement, even during an event of default. Under the indenture and the intercreditor agreement, at any time that obligations that have the benefit of the higher-priority liens are outstanding, any actions that may be taken with respect to (or in respect of) such collateral, including the ability to cause the commencement of enforcement proceedings against such collateral and to control the conduct of such proceedings, and the approval of amendments to, releases of such collateral from the lien of, and waivers of past defaults under, such documents relating to such collateral, will be at the direction of the holders of the obligations secured by the first-priority liens, and the holders of the notes secured by lower-priority liens may be adversely affected.

In addition, the indenture and the intercreditor agreement contain certain provisions benefiting holders of indebtedness under our amended revolving credit facility, including provisions requiring the trustee and the collateral agent not to object following the filing of a bankruptcy petition to a number of important matters regarding the collateral. After such filing, the value of this collateral could materially deteriorate and holders of the notes would be unable to raise an objection. In addition, the right of holders of obligations secured by first-priority liens to foreclose upon and sell such collateral upon the occurrence of an event of default also would be subject to limitations under applicable bankruptcy laws if we or any of our subsidiaries become subject to a bankruptcy proceeding.

The collateral that secure the notes and guarantees on a second-priority basis will also be subject to any and all exceptions, defects, encumbrances, liens and other imperfections as may be accepted by the lenders under our amended revolving credit facility and other creditors that have the benefit of first-priority liens on such collateral from time to time, whether on or after the date the notes and guarantees are issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the collateral securing the notes as well as the ability of the collateral agent to realize or foreclose on such collateral. The initial purchasers have neither analyzed the effect of, nor participated in any negotiations relating to, such exceptions, defects, encumbrances, liens and imperfections, and the existence thereof could adversely affect the value of the collateral that secure the notes as well as the ability of the collateral agent to realize or foreclose on such collateral.

The notes are effectively subordinated to the liabilities and preferred stock, if any, of our non-guarantor subsidiaries and our equity investees.

You will not have any claim as a creditor against our subsidiaries that are not guarantors of the notes. Our unrestricted subsidiaries, our foreign subsidiaries and our equity investees that are not subsidiaries do not guarantee the initial notes and will not guarantee the exchange notes. Therefore, the assets of our non-guarantor subsidiaries and equity investees will be subject to prior claims by creditors of those subsidiaries or other entities, whether secured or unsecured. As a result, the notes are effectively subordinated to the prior payment of all of the debts and other obligations (including trade payables) and the liquidation preference of any preferred stock of our non-guarantor subsidiaries and equity investees. As of June 25, 2006, our equity investees included our Chinese joint venture, Parkdale America LLC, and other joint ventures and represented $190.2 million of assets on our balance sheet. As of June 25, 2006, our non-guarantor subsidiaries, which included our Brazilian and Colombian subsidiaries, held approximately 16.9% of our total consolidated assets and had approximately $19.9 million of indebtedness and other liabilities. Unrestricted subsidiaries under the indenture and equity investees are also not subject to the covenants in the indenture. See Prospectus Summary Our Structure for more information regarding our corporate structure and Management s Discussion and Analysis of Financial Condition and Results of Operations Joint Ventures and Other Equity Investments for more information regarding our joint ventures.

The value of the collateral securing the notes may not be sufficient to satisfy our obligations under the notes.

No appraisal of the value of the collateral has been made in connection with this offering, and the fair market value of the collateral is subject to fluctuations based on factors that include, among others, general economic conditions and similar factors. The amount to be received upon a sale of the collateral would be dependent on numerous factors, including, but not limited to, the actual fair market value of the collateral at such time, the timing and the manner of the sale and the availability of buyers. By its nature, portions of the collateral may be illiquid and may have no readily ascertainable market value. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the collateral may not be sold in a timely or orderly manner and the proceeds from any sale or liquidation of this collateral may not be sufficient to pay our obligations under the notes.

To the extent that pre-existing liens, liens permitted under the indenture and other rights, including liens on excluded assets, such as those securing purchase money obligations and capital lease obligations granted to other parties (in addition to the holders of obligations secured by first-priority liens), encumber any of the collateral securing the notes and the guarantees, those parties have or may exercise rights and remedies with respect to the collateral that could adversely affect the value of the collateral and the ability of the collateral agent, the trustee under the indenture or the holders of the notes to realize or foreclose on the collateral.

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There may not be sufficient collateral to pay off any additional amounts we may borrow under our amended revolving credit facility or any additional notes we may issue together with the notes offered by this prospectus.

Consequently, liquidating the collateral securing the notes may not result in proceeds in an amount sufficient to pay any amounts due under the notes after also satisfying the obligations to pay any creditors with prior liens. If the proceeds of any sale of collateral are not sufficient to repay all amounts due on the notes, the holders of the notes (to the extent not repaid from the proceeds of the sale of the collateral) would have only an unsecured, unsubordinated claim against our and the subsidiary guarantors remaining assets.

We will in most cases have control over the collateral, and the sale of particular assets by us could reduce the pool of assets securing the notes and the guarantees.

The collateral documents allow us to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from, the collateral securing the notes and the guarantees.

In addition, we will not be required to comply with all or any portion of Section 314(d) of the Trust Indenture Act of 1939 if we determine, in good faith based on advice of counsel, that, under the terms of that Section and/or any interpretation or guidance as to the meaning thereof of the SEC and its staff, including no action letters or exemptive orders, all or such portion of Section 314(d) of the Trust Indenture Act is inapplicable to the released collateral. For example, so long as no default or event of default under the indenture would result therefrom and such transaction would not violate the Trust Indenture Act, we may, among other things, without any release or consent by the indenture trustee, conduct ordinary course activities with respect to collateral, such as selling, factoring, abandoning or otherwise disposing of collateral and making ordinary course cash payments (including repayments of indebtedness). With respect to such releases, we must deliver to the collateral agent, from time to time, an officers certificate to the effect that all releases and withdrawals during the preceding six-month period in which no release or consent of the collateral agent was obtained in the ordinary course of our business were not prohibited by the indenture. See Description of the Notes.

There are circumstances other than repayment or discharge of the notes under which the collateral securing the notes and guarantees will be released automatically, without your consent or the consent of the trustee.

Under various circumstances, all or a portion of the collateral securing the notes will be released automatically, including:

- a sale, transfer or other disposal of such collateral in a transaction not prohibited under the indenture;
- with respect to collateral held by a guarantor, upon the release of such guarantor from its guarantee;
- with respect to collateral that is capital stock, upon the dissolution of the issuer of such capital stock in accordance with the indenture; and
- with respect to any collateral in which the notes have a second-priority lien, upon any release by the lenders under our amended revolving credit facility of their first-priority security interest in such collateral.

In addition, the guarantee of a subsidiary guarantor will be automatically released in connection with a sale of such subsidiary guarantor in a transaction not prohibited by the indenture.

The indenture also permits us to designate one or more of our restricted subsidiaries that is a guarantor of the notes as an unrestricted subsidiary. If we designate a subsidiary guarantor as an unrestricted subsidiary, all of the liens on any collateral owned by such subsidiary or any of its subsidiaries and any guarantees of the notes by such subsidiary or any of its subsidiaries will be released under the indenture but not under the amended revolving credit facility. Designation of an unrestricted subsidiary will reduce the aggregate value of the collateral securing the notes to the extent that liens on the assets of the unrestricted subsidiary and its subsidiaries are released. In addition, the creditors of the unrestricted subsidiary and its subsidiaries will have a senior claim on the assets of such unrestricted subsidiary and its subsidiaries. See Description of the Notes.

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The imposition of certain permitted liens will cause the assets on which such liens are imposed to be excluded from the collateral securing the notes and the guarantees. There are also certain other categories of property that are also excluded from the collateral.

The indenture permits liens in favor of third parties to secure purchase money indebtedness and capital lease obligations, and any assets subject to such liens will be automatically excluded from the collateral securing the notes and the guarantees. Our ability to incur purchase money indebtedness and capital lease obligations is subject to the limitations, as described in Description of the Notes. In addition, certain categories of assets are excluded from the collateral securing the notes and the guarantees. Excluded assets include certain contracts, certain equipment, the assets of our non-guarantor subsidiaries and equity investees, certain capital stock and other securities of our subsidiaries and equity investees and the proceeds from any of the foregoing. See Description of the Notes. If an event of default occurs and the notes are accelerated, the notes and the guarantees will rank equally with the holders of other unsubordinated and unsecured indebtedness of the relevant entity with respect to such excluded property.

The pledge of the capital stock, other securities and similar items of our subsidiaries that secure the notes will automatically be released from the lien on them and no longer constitute collateral when the pledge of such capital stock or such other securities would require the filing of separate financial statements with the SEC for that subsidiary.

The notes and the guarantees will be secured by a pledge of the stock of some of our subsidiaries. Under SEC regulations currently in effect, if the par value, book value as carried by us or market value (whichever is greatest) of the capital stock, other securities or similar items of a subsidiary pledged as part of the collateral is greater than or equal to 20% of the aggregate principal amount of the notes then outstanding, such a subsidiary would be required to provide separate financial statements to the SEC. Therefore, the indenture and the collateral documents provide that any capital stock and other securities of any of our subsidiaries will be excluded from the collateral to the extent that the pledge of such capital stock or other securities to secure the notes would cause such subsidiary to be required to file separate financial statements with the SEC under Rule 3-16 of Regulation S-X (as in effect from time to time).

As a result, holders of the notes could lose a portion or all of their security interest in the capital stock or other securities of those subsidiaries. It may be more difficult, costly and time-consuming for holders of the notes to foreclose on the assets of a subsidiary than to foreclose on its capital stock or other securities, so the proceeds realized upon any such foreclosure could be significantly less than those that would have been received upon any sale of the capital stock or other securities of such subsidiary. See Description of the Notes Security.

Your rights in the collateral may be adversely affected by the failure to perfect security interests in certain collateral in the future.

Applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, equipment subject to a certificate and certain proceeds, can only be perfected at the time such property and rights are acquired and identified. The trustee or the collateral agent may not monitor, or we may not inform the trustee or the collateral agent of, the future acquisition of property and rights that constitute collateral, and necessary action may not be taken to properly perfect the security interest in such after-acquired collateral. The collateral agent for the notes has no obligation to monitor the acquisition of additional property or rights that constitute collateral or the perfection of any security interest in favor of the notes against third parties.

The collateral is subject to casualty risks.

We intend to maintain insurance or otherwise insure against hazards in a manner appropriate and customary for our business. There are, however, certain losses that may be either uninsurable or not economically insurable, in whole or in part. Insurance proceeds may not compensate us fully for our losses. If there is a complete or partial loss of any of the pledged collateral, the insurance proceeds may not be sufficient to satisfy all of the secured obligations, including the notes and the guarantees.

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In the event of our bankruptcy, the ability of the holders of the notes to realize upon the collateral will be subject to certain bankruptcy law limitations.

The ability of holders of the notes to realize upon the collateral will be subject to certain bankruptcy law limitations in the event of our bankruptcy. Under applicable U.S. federal bankruptcy laws, secured creditors are prohibited from repossessing their security from a debtor in a bankruptcy case without bankruptcy court approval and may be prohibited from disposing of security repossessed from such a debtor without bankruptcy court approval. Moreover, applicable federal bankruptcy laws generally permit the debtor to continue to retain collateral, including cash collateral, even though the debtor is in default under the applicable debt instruments, provided that the secured creditor is given adequate protection.

The meaning of the term adequate protection may vary according to the circumstances, but is intended generally to protect the value of the secured creditor s interest in the collateral at the commencement of the bankruptcy case and may include cash payments or the granting of additional security if and at such times as the court, in its discretion, determines that a diminution in the value of the collateral occurs as a result of the stay of repossession or the disposition of the collateral during the pendency of the bankruptcy case. In view of the lack of a precise definition of the term adequate protection and the broad discretionary powers of a U.S. bankruptcy court, we cannot predict whether or when the trustee under the indenture for the notes could foreclose upon or sell the collateral or whether or to what extent holders of notes would be compensated for any delay in payment or loss of value of the collateral through the requirement of adequate protection.

Moreover, the collateral agent and the indenture trustee may need to evaluate the impact of the potential liabilities before determining to foreclose on collateral consisting of real property, if any, because secured creditors that hold a security interest in real property may be held liable under environmental laws for the costs of remediating or preventing the release or threatened releases of hazardous substances at such real property. Consequently, the collateral agent may decline to foreclose on such collateral or exercise remedies available in respect thereof if it does not receive indemnification to its satisfaction from the holders of the notes.

We may not be able to satisfy our obligations to holders of the notes upon a change of control.

We may not be able to fulfill our repurchase obligations in the event of a change of control. If we experience certain specific change of control events, we will be required to offer to repurchase all outstanding notes at 101% of the principal amount of the notes plus accrued and unpaid interest to the date of repurchase. Any change of control also constitutes a default under our amended revolving credit facility. Therefore, upon the occurrence of a change of control, the lenders under our amended revolving credit facility would have the right to accelerate their loans and we would be required to prepay all of our outstanding obligations under the amended revolving credit facility. We may not have available funds sufficient to pay the change of control purchase price for any or all of the notes that might be delivered by holders of the notes seeking to accept the change of control offer.

In addition, our amended revolving credit facility contains, and any future credit agreement likely will contain, restrictions or prohibitions on our ability to repurchase the notes. In the event that these change of control events occur at a time when we are prohibited from repurchasing the notes, we could seek the consent of our lenders to purchase the notes or could attempt to refinance the borrowings that contain these prohibitions or restrictions. If we do not obtain our lenders consent or refinance these borrowings, we will remain prohibited or restricted from repurchasing the notes. Accordingly, the holders of the notes may not receive the change of control purchase price for their notes in the event of a sale or other change of control. Our failure to make or consummate the change of control offer or pay the change of control purchase price when due will give the trustee and the holders of the notes the right to declare an event of default and accelerate the repayment of the notes as described under the section in this prospectus entitled Description of the Notes Events of Default and Remedies. This event of default under the indenture for the notes would in turn constitute an event of default under our amended revolving credit facility.

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We and the guarantors may be subject to laws relating to fraudulent conveyance.

Various fraudulent conveyance laws have been enacted for the protection of creditors and may be used by a court to subordinate or void the notes in favor of our other existing and future creditors. In a lawsuit brought on behalf of any of our unpaid creditors or a representative of those creditors or if we, as a debtor in a bankruptcy case, or a bankruptcy trustee of such debtor, or the creditors of such debtor, were to contend that, at the time we issued the exchange notes or the initial notes, we:

- intended to hinder, delay, or defraud any existing or future creditor or contemplated insolvency with a design to prefer one or more creditors to the exclusion in whole or in part of others; or

- did not receive fair consideration or reasonably equivalent value for issuing the notes; *and*

- were insolvent;

- were rendered insolvent by reason of that issuance;

- were engaged or about to engage in a business or transaction for which our remaining assets constituted reasonably small capital to carry on our business; or

- intended to incur, or believed that we would incur, debts beyond our ability to pay as they matured,

a court, including a bankruptcy court, could void our obligations under the notes or the liens we grant to secure the notes. Alternatively, the claims of the holders of notes could be subordinated to claims of our other creditors. Similarly, creditors or a representative of creditors of a subsidiary guarantor or if such subsidiary guarantor as a debtor in a bankruptcy case, or a bankruptcy trustee or the creditors of such debtor may seek to subordinate or void the guarantees of the notes and the granting of liens to secure the guarantees.

The measures of insolvency for purposes of these fraudulent conveyance laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent conveyance has occurred. Generally, however, any of the obligors under the notes or the guarantees would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets, as the case may be;

- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they became due.

We did not obtain a valuation opinion. A court may apply a different standard in making these determinations.

There is no established trading market for the exchange notes and you may not be able to sell them quickly or at the price that you paid.

The exchange notes are a new issue of securities for which there is currently no public market. The exchange notes will not be listed on any securities exchange or included in any automated quotation system. We do not know whether an active trading market will develop for the exchange notes. Although the initial purchaser has informed us that it intends to make a market in the notes, it is under no obligation to do so and may discontinue any market-making activities at any time without notice. Accordingly, no market for the exchange notes may develop, and any market that develops may not last.

Even if a trading market for the exchange notes does develop, you may not be able to sell your exchange notes at a particular time, if at all, or you may not be able to obtain the price you desire for your exchange notes. If the exchange notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on many factors including prevailing interest rates, the market for similar securities, our credit rating, the interest of securities dealers in making a market for the exchange notes, the price of any other securities we issue, the performance prospects and financial condition of our company as well as of other companies in our industry.

The market price for the notes may be volatile.

Historically, the market for noninvestment grade debt has been subject to disruptions that have caused substantial fluctuations in the price of the securities. Even if a trading market for the exchange notes develops, it may be subject to disruptions and price volatility.

Risk Related to the Exchange Offer

Some persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange notes.

Based on interpretations of the staff of the SEC contained in *Exxon Capital Holdings Corp.*, SEC no-action letter (April 13, 1988), *Morgan Stanley & Co. Inc.*, SEC no-action letter (June 5, 1991) and *Shearman & Sterling*, SEC no-action letter (July 2, 1983), we believe that you may offer for resale, resell or otherwise transfer the exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act. However, in some instances described in this prospectus under Plan of Distribution, certain holders of notes will remain obligated to comply with the registration and prospectus delivery requirements of the Securities Act to transfer the exchange notes. If such a holder transfers any exchange notes without delivering a prospectus meeting the requirements of the Securities Act or without an applicable exemption from registration under the Securities Act, such a holder may incur liability under the Securities Act. We do not and will not assume, or indemnify such a holder against, this liability.

Risks Related to Our Business

We face intense competition from a number of domestic and foreign yarn producers and importers of textile and apparel products.

Our industry is highly competitive. We compete not only against domestic and foreign yarn producers, but also against importers of foreign sourced fabric and apparel into the United States and other countries in which we do business. Our major regional competitors are Nan Ya Plastics Corp. of America, Dillon Yarn Corporation, O Mara, Inc., Spectrum Yarns, Inc., KOSA and AKRA, S.A. de C.V. in the polyester yarn segment and Sapona Manufacturing Company, Inc., McMichael Mills, Inc. and Worldtex, Inc. in the nylon yarn segment. The importation of garments and fabrics from lower wage-based countries and overcapacity throughout the world has resulted in lower net sales, gross profits and net income for both our polyester and nylon segments. The primary competitive factors in the textile industry include price, quality, product styling and differentiation, flexibility of production and finishing, delivery time and customer service. The needs of particular customers and the characteristics of particular products determine the relative importance of these various factors. Because we, and the supply chain in which we operate, do not typically operate on the basis of long-term contracts with textile and apparel customers, these competitive factors could cause our customers to rapidly shift to other producers. A large number of our foreign competitors have significant competitive advantages over us, including lower labor costs, lower raw materials and energy costs and favorable currency exchange rates against the U.S. dollar. If any of these advantages increase, our products could become less competitive, and our sales and profits may decrease as a result. In addition, while traditionally these foreign competitors have focused on commodity production, they are now increasingly focused on value-added products, where we continue to generate higher margins. Competitive pressures may also intensify as a result of the gradual elimination of quotas and the potential elimination of duties. See Changes in the trade regulatory environment could weaken our competitive position dramatically and have a material adverse effect on our business, net sales and profitability. We, and the supply chain in which we operate, may therefore not be able to continue to compete effectively with imported foreign-made textile and apparel products, which would materially adversely affect our business, financial condition, results of operations or cash flows.

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

A number of sectors of the textile industry in which we sell our products, particularly apparel and home furnishings, are subject to intense foreign competition. Other sectors of the textile industry in which we sell our products may in the future become subject to more intense foreign competition. There are currently a number of trade regulations, quotas and duties in place to protect the U.S. textile industry against competition from low-priced foreign producers, such as China. Changes in such trade regulations, quotas and duties may make our products less attractive from a price standpoint than the goods of our competitors or the finished apparel products of a competitor in the supply chain, which could have a material adverse effect on our business, net sales and profitability. In addition, increased foreign capacity and imports that compete directly with our products could have a similar effect. Furthermore, one of our key business strategies is to expand our business within countries that are parties to free-trade agreements with the United States. Any relaxation of duties or other trade protections with respect to countries that are not parties to those free-trade agreements could therefore decrease the importance of the trade agreements and have a material adverse effect on our business, net sales and profitability. See Business Trade Regulation.

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

A significant portion of our raw materials are petroleum-based chemicals and a significant portion of our costs are energy costs. The prices for petroleum and petroleum-related products and energy costs are volatile and have recently increased significantly. While we frequently enter into raw material supply agreements, as is the general practice in our industry, these agreements typically provide for formula-based pricing. Therefore, our supply agreements provide only limited protection against price volatility. As a result, our production costs have increased significantly in recent times. While we have in the past matched cost increases with corresponding product price increases, we may not always be able to immediately raise product prices, and, ultimately, pass on underlying cost increases to our customers. We have in the past lost, and we expect that we will continue to lose, customers to our competitors as a result of these price increases. In addition, our competitors may be able to obtain raw materials at a lower cost than we are due to market regulations. Additional raw material and energy cost increases that we are not able to fully pass on to customers or the loss of a large number of customers to competitors as a result of price increases could have a material adverse effect on our business, financial condition, results of operations or cash flows.

We depend upon limited sources for raw materials, and interruptions in supply could increase our costs of production and cause our operations to suffer.

We depend on a limited number of third parties for certain of our raw material supplies, such as polyester polymer beads, or chip, terephthalic acid, or TPA, and monoethylene glycol, or MEG. Although alternative sources of raw materials exist, we may not continue to be able to obtain adequate supplies of such materials on acceptable terms, or at all, from other sources when our existing supply agreements expire. In addition, we have in the past and may in the future experience interruptions or limitations in the supply of our raw materials, which would increase our product costs and could have a material adverse effect on our business, financial condition, results of operations or cash flows. For example, in the Louisiana area in 2005, Hurricane Katrina created shortages in the supply of paraxlyene, a feedstock used in polymer production, because refineries diverted production to mixed xylene to increase the supply of gasoline. As a result, supplies of paraxlyene were reduced, and prices increased. Additionally, five of the six refineries in Texas that produce MEG shut down, including the supplier to our Kinston operation due to Hurricane Rita. The supply of MEG was reduced, and prices increased as well. These disruptions had an adverse effect on our net sales and product costs. Any future disruption or curtailment in the supply of any of our raw materials could cause us to reduce or cease our production in general or require us to increase our pricing, which could have a material adverse effect on our business, financial condition, results of operations or cash flows. See The significant price volatility of many of our raw materials and rising energy costs may result in increased production costs, which we may not be able to pass on to our customers, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

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

Failure to successfully reduce our production costs may adversely affect our financial results.

A significant portion of our strategy relies upon our ability to successfully rationalize and improve the efficiency of our operations. In particular, our strategy relies on our ability to reduce our production costs in order to remain competitive. Over the past three years, we have consolidated multiple unprofitable businesses and production lines in an effort to match operating rates to the market; reduced overhead and supply costs; focused on optimizing the product mix amongst our reorganized assets; and made significant capital expenditures to more completely automate our production facilities, lessen the dependence on labor and decrease waste. If we are not able to continue to successfully implement cost reduction measures, or if these efforts do not generate the level of cost savings that we expect going forward or result in higher than expected costs, there could be a material adverse effect on our business, financial condition, results of operations or cash flows.

Changes in customer preferences, fashion trends and end-uses could have a material adverse effect on our business, net sales and profitability and cause inventory build-up if we are not able to adapt to such changes.

The demand for many of our products depends upon timely identification of consumer preferences for fabric designs, colors and styles. In the apparel sector, a failure by us or our customers to identify fashion trends in time to introduce products and fabrics consistent with those trends could reduce our sales and the acceptance of our products by our customers and decrease our profitability as a result of costs associated with failed product introductions and reduced sales. Our nylon segment has been adversely affected by changing customer preferences that have reduced demand for sheer hosiery products. In all sectors, changes in customer preferences or specifications may cause shifts away from products we provide, which can also have an adverse effect on our business, net sales and profitability.

We have significant foreign operations, and our results of operations may be adversely affected by currency fluctuations.

We have a significant operation in Brazil, operations in Colombia and joint ventures in China and Israel. We serve customers in Canada, Mexico, Israel and various countries in Europe, Central America, South America and South Africa. Foreign operations are subject to certain political, economic and other uncertainties not encountered by our domestic operations that can materially affect our sales, profits, cash flows and financial

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position. The risks of international operations include trade barriers, duties, exchange controls, national and regional labor strikes, social and political risks, general economic risks, required compliance with a variety of foreign laws, including tax laws, the difficulty of enforcing agreements and collecting receivables through foreign legal systems, taxes on distributions or deemed distributions to us or any of our U.S. subsidiaries, maintenance of minimum capital requirements and import and export controls. Through our foreign operations, we are also exposed to currency fluctuations and exchange rate risks. Because a significant amount of our costs incurred to generate the revenues of our foreign operations are denominated in local currencies, while the majority of our sales are in U.S. dollars, we have in the past been adversely impacted by the appreciation of the local currencies relative to the U.S. dollar, and currency exchange rate fluctuations could have a material adverse effect on our business, financial condition, results of operations or cash flows. We have translated our revenues and expenses denominated in local currencies into U.S. dollars at the average exchange rate during the relevant period and our assets and liabilities denominated in local currencies into U.S. dollars at the exchange rate at the end of the relevant period. Fluctuations in the foreign exchange rates will affect period-to-period comparisons of our reported results. Additionally, we operate in countries with foreign exchange controls. These controls may limit our ability to repatriate funds from our international operations and joint ventures or otherwise convert local currencies into U.S. dollars. These limitations could adversely affect our ability to access cash from these operations.

We may be exposed to liabilities under the Foreign Corrupt Practices Act, and any determination that we violated the Foreign Corrupt Practices Act could have a material adverse effect on our business.

To the extent that we operate outside the United States, we are subject to the Foreign Corrupt Practices Act, or FCPA, which generally prohibits U.S. companies and their intermediaries from bribing foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. In particular, we may be held liable for actions taken by our strategic or local partners even though such partners are foreign companies that are not subject to the FCPA. Any determination that we have violated the FCPA could result in sanctions that could have a material adverse effect on our business.

Our business could be negatively impacted by the financial condition of our customers.

The U.S. textile and apparel industry faces many challenges. Overcapacity, volatility in raw material pricing and intense pricing pressures have led to the closure of many domestic textile and apparel plants. Continued negative industry trends may result in the deteriorating financial condition of our customers. Certain of our customers are experiencing financial difficulties. Although our business is not dependent on any particular customer, the loss of any significant portion of our sales to any of these customers could have a material adverse impact on our business, results of operations, financial condition or cash flows. In addition, any receivable balances related to our customers would be at risk in the event of their bankruptcy.

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

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

Our operating results depend to a significant extent on our ability to continue to introduce innovative products and applications and to continue to develop our production processes to be a competitive producer. Accordingly, to maintain our competitive position and our revenue base, we must continually modernize our manufacturing processes, plants and equipment. To this end, we have made significant investments in our manufacturing infrastructure over the past fifteen years and do not currently anticipate any significant additional

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capital expenditures to replace or expand our production facilities over the next five years. Accordingly, we expect our capital requirements in the near term will be used primarily to maintain our manufacturing operations, but we may nevertheless require significant capital expenditures for expansion purposes. Future technological advances in the textile industry may result in the availability of new products or increase the efficiency of existing manufacturing and distribution systems, and we may not be able to adapt to such technological changes or offer such products on a timely basis or establish or maintain competitive positions. Existing, proposed or yet undeveloped technologies may render our technology less profitable or less viable, and we may not have available the financial and other resources to compete effectively against companies possessing such technologies. To the extent sources of funds are insufficient to meet our ongoing capital improvement requirements, we would need to seek alternative sources of financing or curtail or delay capital spending plans. We may not be able to obtain the necessary financing when needed or on terms acceptable to us. We are unable to predict which of the many possible future products and services will meet the evolving industry standards and consumer demands. If we fail to make the capital improvements necessary to continue the modernization of our manufacturing operations and reduction of our costs, our competitive position may suffer, and our net sales may decline.

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

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

We have made and may continue to make investments in entities that we do not control.

We have established joint ventures and made minority interest investments designed to increase our vertical integration, increase efficiencies in our procurement, manufacturing processes, marketing and distribution in the United States and other markets. Our principal joint ventures and minority investments include U.N.F. Industries, Ltd., Unifi-SANS Technical Fibers, LLC, Parkdale America, LLC and Yihua Unifi Fibre Industry Company Limited. See Management s Discussion and Analysis of Financial Condition and Results of Operations Joint Ventures and Other Equity Investments. We do not control these entities and they will not be restricted under the indenture. Subject to certain restrictions, the indenture and our amended revolving credit facility will permit us to continue to enter into certain joint ventures and make certain minority investments. Our inability to control entities in which we invest may affect our ability to receive distributions from those entities or to fully implement our business plan. The incurrence of debt or entry into other agreements by an entity not under our control may result in restrictions or prohibitions on that entity s ability to pay dividends or make other distributions to us. Even where these entities are not restricted by contract or by law from making distributions to us, we may not be able to influence the occurrence or timing of such distributions. In addition, if any of the other investors in these entities fails to observe its commitments, that entity may not be able to operate according to its business plan or we may be required to increase our level of commitment. If any of these events were to occur, our business, results of operations, financial condition or cash flows could be adversely affected. Because we do not own a majority or maintain voting control of these entities, we do not have the ability to control their policies, management or affairs. The interests of persons who control these entities or partners may differ from ours, and they may cause such entities to take actions which are not in our best interest. If we are unable to maintain our relationships with our partners in these entities, we could lose our ability to operate in these areas which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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Our acquisition strategy may not be successful, which could adversely affect our business.

We have expanded our business partly through acquisitions and anticipate that we will continue to make selective acquisitions. Our acquisition strategy is dependent upon the availability of suitable acquisition candidates, obtaining financing on acceptable terms, and our ability to comply with the restrictions contained in the indenture and our other debt agreements. Acquisitions may divert a significant amount of management s time away from the operation of our business. Future acquisitions may also have an adverse effect on our operating results, particularly in the fiscal quarters immediately following their completion while we integrate the operations of the acquired business. Growth by acquisition involves risks that could have a material adverse effect on our business and financial results, including difficulties in integrating the operations and personnel of acquired companies and the potential loss of key employees and customers of acquired companies. Once integrated, acquired operations may not achieve the levels of revenues, profitability or productivity comparable with those achieved by our existing operations, or otherwise perform as expected. While we have experience in identifying and integrating acquisitions, we may not be able to identify suitable acquisition candidates, obtain the capital necessary to pursue our acquisition strategy or complete acquisitions on satisfactory terms or at all. Even if we successfully complete an acquisition, we may not be able to integrate it into our business satisfactorily or at all.

Increases of illegal transshipment of textile and apparel goods into the United States could have a material adverse effect on our business.

There has been a significant increase recently in illegal transshipments of apparel products into the United States. Illegal transshipment involves circumventing quotas by falsely claiming that textiles and apparel are a product of a particular country of origin or include yarn of a particular country of origin to avoid paying higher duties or to receive benefits from regional free-trade agreements, such as NAFTA and CAFTA. If illegal transshipment is not monitored and enforcement is not effective, these shipments could have a material adverse effect on our business.

We are subject to many environmental and safety regulations that may result in significant unanticipated costs or liabilities or cause interruptions in our operations.

We are subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances relating to pollution, the protection of the environment and the use or cleanup of hazardous substances and wastes. We may incur substantial costs, including fines, damages and criminal or civil sanctions, or experience interruptions in our operations for actual or alleged violations of or compliance requirements arising under environmental laws, any of which could have a material adverse effect on our business, financial condition, results of operations or cash flows. Our operations could result in violations of environmental laws, including spills or other releases of hazardous substances to the environment. In the event of a catastrophic incident, we could incur material costs.

In addition, we could incur significant expenditures in order to comply with existing or future environmental or safety laws. For example, the land associated with the Kinston acquisition is leased under a 99 year ground lease with DuPont. Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the U.S. Environmental Protection Agency and the North Carolina Department of Environment and Natural Resources under the Resource Conservation and Recovery Act Corrective Action Program. The Corrective Action Program requires DuPont to identify all potential areas of environmental concern, known as solid waste management units or areas of concern, assess the extent of contamination at the identified areas and clean them up to applicable regulatory standards. Under the terms of the ground lease, upon completion by DuPont of required remedial action, ownership of the Kinston site will pass to us. Thereafter, we will have responsibility for future remediation requirements, if any, at the solid waste management units and areas of concern previously addressed by DuPont and at any other areas at the plant. At this time we have no basis to determine if and when we will have any responsibility or obligation with respect to contaminated solid waste management units and areas of concern or the extent of any potential liability for the same. Accordingly, the possibility that we could face material clean-up costs in the future relating to the Kinston facility cannot be eliminated. Capital expenditures and, to a lesser extent, costs and operating expenses relating to environmental or safety matters will be subject to evolving regulatory requirements and will depend on the timing of the promulgation and enforcement of specific standards which impose requirements on our operations. Therefore, capital expenditures beyond those currently anticipated may be required under existing or future environmental or safety laws. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Environmental Liabilities.

Furthermore, we may be liable for the costs of investigating and cleaning up environmental contamination on or from our properties or at off-site locations where we disposed of or arranged for the disposal or treatment of hazardous materials or from disposal activities that pre-dated the purchase of our businesses. If significant previously unknown contamination is discovered, existing laws or their enforcement change or our indemnities do not cover the costs of investigation and remediation, then such expenditures could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Health and safety regulation costs could increase.

Our operations are also subject to regulation of health and safety matters by the United States Occupational Safety and Health Administration and comparable statutes in foreign jurisdictions where we operate. We believe that we employ appropriate precautions to protect our employees and others from workplace injuries and harmful exposure to materials handled and managed at our facilities. However, claims that may be asserted against us for work-related illnesses or injury, and changes in occupational health and safety laws and regulations in the United States or in foreign jurisdictions in which we operate could increase our operating costs. We are unable to predict the ultimate cost of compliance with these health and safety laws and regulations. Accordingly, we may become involved in future litigation or other proceedings or be found to be responsible or liable in any litigation or proceedings, and such costs may be material to us.

Our business may be adversely affected by adverse employee relations.

As of June 25, 2006, we employed approximately 3,300 employees, approximately 2,900 of which are domestic employees and approximately 400 of which are foreign employees. While employees of our foreign operations are generally unionized, none of our domestic employees are currently covered by collective bargaining agreements. The failure to renew our collective bargaining agreements with employees of our foreign operations and other labor relations issues, including union organizing activities, could result in an increase in costs or lead to a strike, work stoppage or slow down. Such labor issues and unrest by our employees could have a material adverse effect on our business.

We depend on the continued services of key managers and employees.

Our ability to maintain our competitive position is dependent to a large degree on the services of our senior management team, including our Chief Executive Officer, Mr. Parke, and our Chief Operating Officer and Chief Financial Officer, Mr. Lowe. We currently do not have any employment agreements with our senior management team other than Mr. Parke and Mr. Lowe and cannot assure you that any of these individuals will remain with us. We currently do not have a life insurance policy on any of the members of the senior management team. The death or loss of the services of any of our senior managers or the inability to attract and retain additional senior management personnel could have a material adverse effect on our business.

Our future financial results could be adversely impacted by asset impairments or other charges.

Under Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we are required to assess the impairment of our long-lived assets, such as plant and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable as measured by the sum of the expected future undiscounted cash flows. When we determine that the carrying value of certain long-lived assets may not be recoverable based upon the existence of one or more impairment indicators, we then measure any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in our current business model. In accordance with SFAS No. 144, any such impairment charges will be recorded as operating losses. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Impairment of Long-Lived Assets.

In addition, we evaluate the net values assigned to various equity investments we hold, such as our investment in Yihua Unifi Fibre Industry Company Limited, Parkdale America, LLC, Unifi-SANS Technical Fibers, LLC and U.N.F. Industries Limited, in accordance with the provisions of Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. APB No. 18 requires that a loss in value of an investment, which is other than a temporary decline, should be recognized as an impairment loss. Any such impairment losses will be recorded as operating losses. See Management s Discussion and Analysis of Financial Condition and Results of Operations Joint Ventures and Other Equity Investments for more information regarding our equity investments.

Any operating losses resulting from impairment charges under SFAS No. 144 or APB No. 18 could have an adverse effect on our net income and therefore the market price of our securities, including our common stock and the notes.

Our business could be adversely affected if we fail to protect our intellectual property rights.

Our success depends in part on our ability to protect our intellectual property rights. We rely on a combination of patent, trademark, and trade secret laws, licenses, confidentiality and other agreements to protect our intellectual property rights. However, this protection may not be fully adequate: our intellectual property rights may be challenged or invalidated, an infringement suit by us against a third party may not be successful and/or third parties could design around our technology or adopt trademarks similar to our own. In addition, the laws of some foreign countries in which our products are manufactured and sold do not protect intellectual property rights to the same extent as the laws of the United States. Although we routinely enter into confidentiality agreements with our employees, independent contractors and current and potential strategic and joint venture partners, among others, such agreements may be breached, and we could be harmed by unauthorized use or disclosure of our confidential information. Further, we license trademarks from third parties, and these agreements may terminate or become subject to litigation. Our failure to protect our intellectual property could materially and adversely affect our competitive position, reduce revenue or otherwise harm our business.

Further, we may be accused of infringing or violating the intellectual property rights of third parties. Any such claims, whether or not meritorious, could result in costly litigation and divert the efforts of our personnel. Should we be found liable for infringement, we may be required to enter into licensing arrangements (if available on acceptable terms or at all) or pay damages and cease selling certain products or using certain product names or technology. Our failure to prevail in any intellectual property litigation could materially adversely affect our competitive position, reduce revenue or otherwise harm our business.

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FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that do not relate solely to historical fact. They include, but are not limited to, any statement that may predict, forecast, indicate or imply future results, performance, achievements or events. They may contain words such as believe, anticipate, expect, estimate, intend, project, plan, will, or words or phrases of similar meaning. They may relate to, among other things, the risks des under the caption Risk Factors and:

- the competitive nature of the textile industry and the impact of worldwide competition;
- changes in the trade regulatory environment and governmental policies and legislation;
- the availability, sourcing and pricing of raw materials;
- general domestic and international economic and industry conditions in markets where we compete, such as recession and other economic and political factors over which we have no control;
- changes in consumer spending, customer preferences, fashion trends and end-uses;
- our ability to reduce production costs;
- changes in currency exchange rates, interest and inflation rates;
- the financial condition of our customers;
- technological advancements and the continued availability of financial resources to fund capital expenditures;
- the operating performance of joint ventures, alliances and other equity investments;
- the impact of environmental, health and safety regulations; and
- employee relations.

These forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties that may cause actual results to differ materially from trends, plans or expectations set forth in the forward-looking statements and may adversely affect the value of and our ability to make payments on the notes. These risks and uncertainties may include those discussed above or in Risk Factors. New risks can emerge from time to time. It is not possible for us to predict all of these risks, nor can we assess the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in forward-looking statements. Given these risks and uncertainties, we urge you to read this prospectus completely with the understanding that actual future results may be materially different from what we plan or expect. We will not update these forward-looking statements, even if our situation changes in the future, except as required by federal securities laws.

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USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the exchange notes in exchange for the outstanding initial notes. We are making this exchange solely to satisfy our obligations under the registration rights agreements entered into in connection with the offering of the initial notes. In consideration for issuing the exchange notes, we will receive initial notes in like aggregate principal amount.

We used the gross proceeds of $190.0 million from the sale of the initial notes, together with borrowings under our amended revolving credit facility and cash on hand to repurchase the 2008 notes tendered in the tender offer and pay related fees and expenses associated with the refinancing transactions. The approximate sources and uses of gross proceeds in connection with the refinancing transactions were as follows (in millions):

Sources		**Uses**	
Initial notes	$ 190.0	Repurchase of 2008 notes in tender offer(1)	$ 253.9
Cash and cash equivalents	68.8	Transaction fees and expenses(2)	7.9
Borrowings under our amended revolving credit facility	3.0		
Total Sources	$ 261.8	**Total Uses**	$ 261.8

(1) On April 28, 2006, we commenced a tender offer for the 2008 notes in which $248.7 million of the 2008 notes, representing 99.5% of the then outstanding aggregate principal amount of 2008 notes, were tendered and purchased at a purchase price of 100.0% of their principal amount plus accrued and unpaid interest to, but not including, May 26, 2006. The remaining 2008 notes mature on February 1, 2008 and bear interest at 6.5%.

(2) Transaction fees and expenses include fees and expenses related to the refinancing transactions.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of June 25, 2006 on an actual basis.

This table is presented and should be read in conjunction with our historical consolidated financial statements, together with the related notes, included elsewhere in this prospectus. Also see Use of Proceeds, Selected Historical Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and Description of Other Indebtedness.

	As of June 25, 2006 (in millions)	
Cash and cash equivalents	$	35.3
Short-term and long-term debt:		
Revolving credit facility(1)	$	
2008 notes(2)		1.3
The notes		190.0
Other debt(3)		17.1
Total debt		208.4
Shareholders equity		383.0
Total capitalization	$	591.4

(1) The amended revolving credit facility consists of a revolving asset-based loan facility of $100.0 million. As of June 25, 2006, there were no amounts outstanding under our amended revolving credit facility, and based on our calculation as of that date, $94.2 million was available for borrowing under the borrowing base of this facility (net of $5.8 million to support outstanding letters of credit). See Description of Other Indebtedness Amended Revolving Credit Facility.

(2) On April 28, 2006, we commenced a tender offer for the 2008 notes in which $248.7 million of 2008 notes, representing 99.5% of the then outstanding aggregate principal amount of 2008 notes, were tendered and purchased at a purchase price of 100.0% of their principal amount plus accrued and unpaid interest to, but not including, May 26, 2006.

(3) Includes $10.5 million of indebtedness in Brazil that is collateralized by cash that is classified as other current and non-current assets on our balance sheet. See Description of Other Indebtedness Indebtedness of Unifi do Brasil.

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SELECTED HISTORICAL FINANCIAL DATA

The following table presents the selected historical financial data of our company and our consolidated subsidiaries as of and for each of the fiscal years ended June 25, 2006, June 26, 2005, June 27, 2004, June 29, 2003, and June 30, 2002. The selected historical financial data as of June 25, 2006 and June 26, 2005, and for the fiscal years ended June 25, 2006, June 26, 2005, and June 27, 2004, have been derived from, and should be read together with, our audited historical consolidated financial statements and the accompanying notes included elsewhere in this prospectus. The selected historical financial data as of June 27, 2004, June 29, 2003 and June 30, 2002, and for the fiscal years ended June 29, 2003 and June 30, 2002 have been derived from our audited consolidated financial statements (which are not included in this prospectus), as adjusted to reflect restatement for discontinued operations. The consolidated financial statements of Unifi, Inc. begin on page F-1 of this prospectus. The selected historical financial data set forth below is not necessarily indicative of the results of future operations and should also be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal Years Ended				
	June 25, 2006	June 26, 2005	June 27, 2004	June 29, 2003	June 30, 2002
	(dollars in thousands)				
Statements of operations data:					
Net sales	$ 738,825	$ 793,796	$ 666,383	$ 747,681	$ 813,635
Cost of sales	696,055	762,717	625,983	675,829	739,623
Selling, general and administrative expenses	41,534	42,211	45,963	48,182	44,707
Provision for bad debts	1,256	13,172	2,389	3,812	6,285
Interest expense	19,247	20,575	18,698	19,736	22,948
Interest income	(4,489)	(2,152)	(2,152)	(1,420)	(2,260)
Other (income) expense, net	(3,118)	(2,300)	(2,590)	(115)	4,129
Equity in (earnings) losses of unconsolidated affiliates	(825)	(6,938)	6,877	(10,728)	1,659
Minority interest (income) expense		(530)	(6,430)	4,769	
Restructuring charges (recovery)	(254)	(341)	8,229	10,597	
Arbitration costs and expenses			182	19,185	1,129
Alliance plant closure costs (recovery)			(206)	(3,486)	
Write down of long-lived assets	2,366	603	25,241		
Goodwill impairment			13,461		
Loss from early extinguishment of debt	2,949				
Loss from continuing operations before income taxes and extraordinary item	(15,896)	(33,221)	(69,262)	(18,680)	(4,585)
Benefit for income taxes	(1,170)	(13,483)	(25,113)	(2,590)	(2,132)
Loss from continuing operations before extraordinary item	(14,726)	(19,738)	(44,149)	(16,090)	(2,453)
Income (loss) from discontinued operations, net of tax	360	(22,644)	(25,644)	(11,087)	(3,621)
Loss before extraordinary item	(14,366)	(42,382)	(69,793)	(27,177)	(6,074)
Extraordinary gain net of taxes of $0		1,157			
Cumulative effect of accounting change, net of tax					(37,851)
Net loss	$ (14,366)	$ (41,225)	$ (69,793)	$ (27,177)	$ (43,925)
Other financial data:					
Depreciation	$ 48,669	$ 51,542	$ 56,226	$ 62,273	$ 66,098
Capital expenditures	(11,988)	(9,422)	(11,124)	(22,996)	(9,653)
Net cash provided by (used in) continuing operations:					
Operating activities	30,093	28,785	11,380	87,057	80,540
Investing activities	(29,230)	(4,691)	(5,777)	(11,222)	(20,781)
Financing activities	(90,174)	82	(8,467)	(29,929)	(55,476)

Ratio of earnings to fixed charges(1)

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	As of June 25, 2006	June 26, 2005	June 27, 2004	June 29, 2003	June 30, 2002
	(in thousands)				
Balance sheet data:					
Cash and cash equivalents	$ 35,317	$ 105,621	$ 65,221	$ 76,801	$ 19,105
Property, plant and equipment	916,337	955,459	943,555	978,200	961,327
Investments in unconsolidated affiliates	190,217	160,675	164,286	173,585	180,885
Total assets	732,637	845,375	872,535	1,002,201	1,019,555
Total debt	208,440	295,129	272,276	266,680	288,549
Total liabilities	349,684	461,800	470,634	508,388	513,423
Total shareholders equity	382,953	383,575	401,901	479,748	498,040

(1) The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings from continuing operations before income taxes and extraordinary item plus fixed charges. Fixed charges consist of interest expense, whether expensed or capitalized, amortization of debt financing costs and an estimate of the interest within rent expense. The as adjusted ratio of earnings to combined fixed charges for fiscal year 2006 and 2005 were both less than one-to-one coverage and the deficiency of earnings to fixed charges were $20.0 million and $39.3 million, respectively. Earnings were insufficient to cover fixed charges by $15.0 million, $33.8 million, $67.7 million, $12.9 million and $2.1 million, respectively, in fiscal years 2006, 2005, 2004, 2003 and 2002.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with Selected Historical Financial Data and our historical consolidated financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that are based on management s current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements and as a result of the factors we describe under Risk Factors and elsewhere in this prospectus.

Business Overview

We are a diversified North American producer and processor of multi-filament polyester and nylon yarns, including specialty yarns with enhanced performance characteristics. We add value to the supply chain and enhance consumer demand for our products through the development and introduction of branded yarns that provide unique performance, comfort and aesthetic advantages. We manufacture partially oriented, textured, dyed, twisted and beamed polyester yarns as well as textured nylon and nylon covered spandex products. We sell our products to other yarn manufacturers, knitters and weavers that produce fabrics for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets. We maintain one of the industry s most comprehensive product offerings and emphasize quality, style and performance in all of our products.

Polyester Segment. The polyester segment manufactures partially oriented, textured, dyed, twisted and beamed yarns with sales to other yarn manufacturers, knitters and weavers that produce fabrics for the apparel, automotive and furniture upholstery, hosiery, home furnishings, automotive, industrial and other end-use markets. The polyester segment primarily manufactures its products in Brazil, Colombia and the United States which has the largest operations and number of locations. For fiscal years 2006, 2005 and 2004, our net sales for our polyester segment were \$566.4 million, \$587.0 million and \$481.8 million, respectively.

Nylon Segment. The nylon segment manufactures textured nylon and covered spandex products with sales to other yarn manufacturers, knitters and weavers that produce fabrics for the apparel, hosiery, sock and other end-use markets. The nylon segment consists of operations in the United States and Colombia. For fiscal years 2006, 2005 and 2004, our net sales for our nylon segment were \$172.5 million, \$206.8 million and \$184.5 million, respectively.

Sourcing Segment. In July 2005, we announced our decision to exit the sourcing business and as of the end of fiscal year 2006, we had fully liquidated the business. All periods have been presented as discontinued operations in accordance with GAAP.

Our fiscal year is the 52 or 53 weeks ending the last Sunday in June. Fiscal years 2006, 2005 and 2004 had 52 weeks.

Line Items Presented

Net sales. Net sales include amounts billed by us to customers for products, shipping and handling, net of allowances for rebates. Rebates may be offered to specific large volume customers for purchasing certain quantities of yarn over a prescribed time period. We provide for allowances associated with rebates in the same accounting period the sales are recognized in income. Allowances for rebates are calculated based on sales to customers with negotiated rebate agreements with us. We record allowances for estimated product returns.

Cost of sales. Our cost of sales consists of direct material, delivery and other manufacturing costs, including labor and overhead, depreciation and amortization expense with respect to manufacturing assets, fixed asset depreciation, amortization of intangible assets and reserves for obsolete and slow-moving inventory. Cost of sales also includes amounts directly related to providing technological support to our Chinese joint venture discussed below.

Selling, general and administrative expenses. Our selling, general and administrative expenses consist of selling expense (which includes sales staff salaries and bonuses), advertising and promotion (which includes direct marketing expenses) and administrative expense (which includes corporate expenses and bonuses). In addition, selling, general and administrative expenses also includes depreciation and amortization with respect to certain corporate administrative assets.

Recent Developments and Outlook

Although the global textile and apparel industry continues to grow, the U.S. textile and apparel industry has contracted since 1999, caused primarily by intense foreign competition in finished goods on the basis of price, resulting in ongoing U.S. domestic overcapacity, many producers moving their operations offshore and the closure of many domestic textile and apparel plants. More recently, the U.S. textile and apparel industry has continued to decline, although it has been experiencing low negative growth rates. In addition, due to consumer preferences, demand for sheer hosiery products has declined significantly in recent years, which negatively impacts nylon manufacturers. Because of these general industry trends, our net sales, gross profits and net income have been trending downward for the past several years. These challenges continue to impact the U.S. textile and apparel industry, and we expect that they will continue to impact the U.S. textile and apparel industry for the foreseeable future. We believe that our success going forward is primarily based on our ability to improve the mix of our product offerings to shift to more premium value-added products, to exploit the free-trade agreements to which the United States is a party and to implement cost saving strategies which will improve our operating efficiencies. The continued viability of the U.S. domestic textile and apparel industry is dependent, to a large extent, on the international trade regulatory environment. For the most part, because of protective duties currently in place and NAFTA, CAFTA, CBI, ATPA and other free-trade agreements or duties preference programs, we have not experienced significant declines in our market share due to the importation of Asian products.

We are also highly committed and dedicated to identifying strategic opportunities to participate in the Asian textile market, specifically China, where the growth rate is estimated to be within a range of 7% to 9%. As further discussed below in Joint Ventures and Other Equity Investments, we have invested $30.0 million in a joint venture in China to manufacture, process and market polyester filament yarn.

During fiscal year 2006, we continued to shift our focus away from selling large volumes of products in order to focus on making each product line profitable. We have identified unprofitable product lines and raised sales prices accordingly. In some cases, this strategy has resulted in reduced sales of these products or even the elimination of the unprofitable product lines. We expect that the reduction of these unprofitable businesses will improve our future operating results. This program has resulted in significant restructuring charges in recent periods, and additional losses of volume associated with these actions may require additional plant consolidations in the future, which may result in further restructuring charges.

In the fourth quarter of fiscal year 2005, we also began to reduce our inventories, including certain slow moving items, in order to improve our cash position and reduce our working capital requirements. These sales of inventory resulted in significant net losses in the fourth quarter of fiscal year 2005. A number of these items were unsold inventory that had been tailored to customer specifications but was eventually not purchased by the relevant customer and was difficult to sell to other customers. As a result, in April 2005, we instituted a make to order policy for products tailored to customer specifications that we believe will be difficult to sell to other customers.

We entered into a manufacturing alliance with DuPont in June 2000 to produce polyester POY at DuPont s facility in Kinston and at our facility in Yadkinville, North Carolina. DuPont later transferred its interest in this

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alliance to Invista, Inc. This alliance resulted in significant annual benefits to us of approximately $30 million, consisting of reductions in fixed costs, variable costs savings and product development enrichment. On September 30, 2004, we acquired the Kinston facility, including inventories, for approximately $24.4 million, in the form of a note payable to Invista. We closed two of its four production lines, increased efficiency and automation and reduced the workforce. See Corporate Restructurings. The acquisition resulted in the termination of our alliance with DuPont. As a result of the Kinston acquisition, our results for periods subsequent to the Kinston acquisition will not be fully comparable to our results for the prior periods, which include the annual benefit of the alliance.

The impact of Hurricane Katrina on the oil refineries in the Louisiana area in August 2005 created shortages of supply of gasoline and as a result a shortage of paraxlyene, a feedstock used in polymer production in our polyester segment, because producers diverted production to mixed xlyene to increase the supply of gasoline. As a result, while supplies were tight, paraxlyene continued to be available at a much higher price. During September 2005, we received notices from several raw material suppliers declaring force majeure under our contracts and increasing the price we paid under those contracts effective September 1, 2005. As a result of this increase, and other energy-related cost increases, we imposed a 14 cents per pound surcharge on our polyester products in an effort to maintain our margins. Throughout the second quarter of fiscal year 2006, the surcharge stayed in effect at different levels as raw material prices declined. In other operations that have a high usage of natural gas, we also increased sales prices effective November 1, 2005 to compensate for the increase in utility costs.

Though polyester raw material prices declined during the end of the second quarter of fiscal year 2006, a different set of paraxylene industry dynamics emerged during the third quarter of fiscal year 2006 that led to further increases of raw material prices. Polyester raw material prices once again increased during the last two quarters of fiscal year 2006 and continue to be steady. We believe that the pressure from strong gasoline demand, coupled with the phase-out of the production of Methyl Tetra-butyl Ether, or MTBE, from gasoline has had an impact on paraxylene pricing by raising the value of mixed xylenes as a blend component for gasoline, as xylenes are diverted into gasoline as a replacement for MTBE.

Hurricane Rita shut down five of the six refineries in Texas that produce MEG in September 2005, including the supplier to our Kinston polyester filament manufacturing operation. In addition, an unrelated accident closed one of the supplier s facilities in early October 2005. With five of the six facilities closed, the supply of MEG in the marketplace became temporarily tight, and MEG became unavailable at historical prices. At the time of Hurricane Rita, we had approximately 22 days of inventory of MEG. We started purchasing MEG on the spot market and trucking the MEG to Kinston, which increased our costs compared to our more economical method of transportation by railroad.

We successfully managed through these transportation and access issues to meet our delivery commitments. As of the close of the second quarter of fiscal year 2006, the availability of raw materials had returned to normal levels, but pricing had not returned to pre-hurricane levels. Effective January 1, 2006, we removed the surcharge on our products and instituted a price increase to maintain our margins.

In spite of our ability to pass to our customers nearly all of the cost increases resulting from the 2005 hurricanes and the associated supply shortages, revenues in our polyester segment for the second and third quarters of fiscal year 2006 were lower than for the comparable period in fiscal year 2005 due to lower overall purchases by our customers because of the increased prices. The polyester segment revenues lost during the second and third quarters of fiscal year 2006 have not been fully offset by increased orders in subsequent periods. In addition to the decrease in overall polyester segment revenues, increased prices also resulted in smaller order size for our polyester segment products during the second quarter of fiscal year 2006, as customers sought to purchase only their minimum requirements during the supply disruption period. Smaller order sizes affected our margins negatively during that period, as repeated changes in our production lines increased our per-unit costs for smaller orders. As a result, in February 2006, we instituted small order pricing surcharges to offset this effect on our margins.

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On April 28, 2006, we commenced a tender offer for all of our then outstanding $250.0 million in aggregate principal amount of 2008 notes simultaneously with a consent solicitation from the holders of the 2008 notes to remove substantially all of the restrictive covenants and certain events of default under the indenture governing the 2008 notes. The tender offer expired on May 25, 2006, and $248.7 million in aggregate principal amount of 2008 notes were tendered in the tender offer, representing 99.5% of the then outstanding aggregate principal amount of 2008 notes. The tender consideration was 100% of the principal amount of 2008 notes validly tendered plus accrued but unpaid interest to, but not including, May 26, 2006. We paid a total consideration of $253.9 million for the tendered 2008 notes. The proceeds from the sale of the initial notes were used to fund, in part, the purchase price for the tendered 2008 notes. The $1.3 million in aggregate principal amount of 2008 notes that were not tendered and purchased in the tender offer remain outstanding in accordance with their amended terms.

Key Performance Indicators

We continuously review performance indicators to measure our success. The following are the indicators management uses to assess performance of our business:

- sales volumes, which are an indicator of demand;
- margins, which are an indicator of product mix and profitability;
- EBITDA, which is an indicator of our ability to pay debt; and
- working capital of each business unit as a percentage of sales, which is an indicator of our production efficiency and ability to manage our inventory and receivables.

Corporate Restructurings

Over the last three fiscal years, we have focused on reducing costs throughout our operations and continuing to improve working capital. We closed one of our air jet texture operations in Altamahaw, North Carolina in mid-2004. We closed our dyed facility in Manchester, England, in June 2004. On July 28, 2004, we announced the closing of our European manufacturing operations and associated sales offices. We ceased our manufacturing operations in Ireland on October 31, 2004. We ceased all other European operations by June 2005 and sold the real property, plant and equipment of our European division in fiscal years 2005 and 2006 for total proceeds of $38.0 million that resulted in a net gain of approximately $4.6 million. In connection with these closings and consolidations, we significantly reduced our workforce. As a result, we incurred a restructuring charge of $27.7 million in fiscal year 2004 for employee severance costs, fixed-asset write-offs associated with the closure of the dyed facility in Manchester and lease related costs associated with the closure of the jet-air texture operation in North Carolina. All payments, excluding the lease related payments which continue until May 2008, have been paid and we have reclassified the financial results of our U.K. and Ireland facilities as discontinued operations for all periods presented in our consolidated financial statements.

On October 19, 2004, we announced plans to close two production lines and downsize our facility in Kinston, North Carolina, which had been acquired in September 2004. During the second quarter of fiscal year 2005, we recorded a severance reserve of $10.7 million for approximately 500 production level employees and a restructuring reserve of $0.4 million for the cancellation of certain warehouse leases. During the third quarter of fiscal year 2005, we completed the closure of both production lines as scheduled, which resulted in an actual reduction of 388 production level employees and a reduction to the initial restructuring reserve. Since no long-term assets or intangible assets were recorded in purchase accounting, the net reduction of $1.2 million was recorded as an extraordinary gain in fiscal year 2005. During the first quarter of year fiscal 2006, we determined that there were additional costs relating to the termination of two warehouse leases which resulted in a $0.2 million extraordinary loss. During the second quarter of fiscal year 2006, we negotiated a favorable settlement on the two warehouse leases that resulted in a reduction to the reserve and the recognition of an extraordinary gain of $0.2 million.

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On August 29, 2005, we closed our central distribution center in Mayodan, North Carolina, and moved the operations to our warehouse and logistics facilities in Yadkinville, North Carolina, and relocated one of our plants from Mayodan to Madison, North Carolina. In connection with this initiative, we determined to offer for sale a plant, warehouse and central distribution center located in Mayodan, North Carolina. Based on appraisals received in September 2005, we determined that the warehouse was impaired and recorded an impairment charge of $1.5 million, which included $0.2 million in estimated selling costs that will be paid from the proceeds of the sale when it occurs. On March 13, 2006, we entered into a contract to sell the central distribution center and related land located in Mayodan. The terms of the contract call for a sale price of $2.7 million, which was approximately $0.7 million below the property s carrying value. In accordance with SFAS No. 144, we recorded an impairment charge of approximately $0.8 million during the third quarter of fiscal year 2006, which included estimated selling costs of $0.1 million. The sale of the central distribution center closed in the fourth quarter of fiscal year 2006 with no further expense to us.

On July 28, 2005, we announced our decision to discontinue the operations of our external sourcing business, Unimatrix Americas, and as of the end of fiscal year 2006, we had fully liquidated the business, resulting in the reclassification of the sourcing segment s losses for the current and prior periods as discontinued operations.

On April 20, 2006, we reorganized our domestic business operations, and as a result, we recorded a restructuring charge for severance of approximately $0.8 million in the fourth quarter of fiscal year 2006. Approximately 45 management level salaried employees were affected by the plan of reorganization.

The table below summarizes changes to the accrued severance and accrued restructuring accounts for the fiscal years 2006, 2005 and 2004 (in thousands):

	Balance at June 26, 2005	Additional Charges	Adjustments	Amounts Used	Balance at June 25, 2006
Accrued severance	$ 5,252	$ 812	$ 44	$ (5,532)	$ 576
Accrued restructuring	5,053		(195)	(1,308)	3,550

	Balance at June 27, 2004	Additional Charges	Adjustments	Amounts Used	Balance at June 26, 2005
Accrued severance	$ 2,949	$ 10,701	$ (834)	$ (7,564)	$ 5,252
Accrued restructuring	6,654	391	(695)	(1,297)	5,053

	Balance at June 29, 2003	Additional Charges	Adjustments	Amounts Used	Balance at June 27, 2004
Accrued severance	$ 13,893	$ 7,847	$ (10)	$ (18,781)	$ 2,949
Accrued restructuring		6,739		(85)	6,654

Joint Ventures and Other Equity Investments

YUFI. In August 2005, we formed Yihua Unifi Fibre Industry Company Limited, or YUFI, a 50/50 joint venture with Sinopec Yizheng Chemical Fiber Co., Ltd., or YCFC, to manufacture, process and market polyester filament yarn in YCFC s facilities in Yizheng, Jiangsu Province, China. YCFC is a publicly traded (listed in Shanghai and Hong Kong) enterprise with approximately $1.3 billion in annual sales. We believe that the addition of a high-quality, globally cost competitive operation in China allows us to pursue long-term, profitable revenue growth in Asia. By forming a joint venture with a long-established and highly respected fiber industry leader like YCFC, we also have an immediately accessible customer base in Asia at lower start-up costs and with fewer execution risks. The principal goal of YUFI is to supply premium value-added products to the Chinese market, which is currently an importer of such products. On August 4, 2005, we contributed to YUFI our initial capital contribution of $15.0 million in cash. On October 12, 2005, we transferred an additional $15.0 million to YUFI in the form of a shareholder loan with a thirteen month term to complete the capitalization

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of the joint venture. On July 25, 2006, the shareholder loan was capitalized as an additional capital contribution of Unifi to the joint venture. During fiscal year 2006, we recognized equity losses relating to YUFI of $3.2 million, which is reported net of elimination of intercompany support provided. In addition, we recognized $2.7 million in operating expenses for fiscal year 2006, which were primarily reflected on the cost of sales line item in our consolidated statements of operations, directly related to providing technological support in accordance with our joint venture contract. We have granted YUFI an exclusive, non-transferable license to certain of our branded product technology (including Mynx®UV, Sorbtek®, Reflexx® and dye springs) in China for a license fee of $6.0 million that is payable over four years.

PAL. In June 1997, we contributed all of the assets of our spun cotton yarn operations, utilizing open-end and air jet spinning technologies, into a joint venture with Parkdale Mills, Inc. called Parkdale America, LLC, or PAL in exchange for a 34% ownership interest in the joint venture. PAL is a producer of cotton and synthetic yarns for sale to the textile and apparel industries primarily within North America. PAL has 14 manufacturing facilities primarily located in central and western North Carolina. Our investment in PAL at June 25, 2006 was $140.9 million. For fiscal years 2006, 2005 and 2004, we reported equity income (loss) of $3.8 million, $6.4 million and $(6.9) million, respectively, from PAL. We are currently exploring ways to monetize our interest in PAL.

USTF. On September 13, 2000, we formed a 50/50 joint venture with SANS Fibres of South Africa named Unifi-SANS Technical Fibers, LLC, or USTF, to produce low-shrinkage high tenacity nylon 6.6 light denier industrial, or LDI yarns in North Carolina. The business is operated in our plant in Stoneville, North Carolina. We manage 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 Americas. For fiscal years 2006, 2005 and 2004, we reported equity income (loss) of $0.8 million, $(0.1) million and $(1.3) million, respectively, from USTF. We have a put right under this agreement to sell our entire interest in the joint venture at fair market value and the related Stoneville, North Carolina manufacturing facility for $3.0 million (or fair market value if the sale is consummated after March 2011) in cash back to SANS Fibres. This right can be exercised beginning on December 31, 2006 upon one year s prior written notice. SANS Fibres has a call option upon the same terms as our put right.

UNF. On September 27, 2000, we formed a 50/50 joint venture with Nilit Ltd. named U.N.F. Industries Ltd., or UNF, which produces nylon POY at Nilit s manufacturing facility in Migdal Ha-Emek, Israel, that is our primary source of nylon POY for our texturing and covering operations. We have entered into a supply agreement on customary terms with UNF, which will expire in April 2008, under which we have agreed to purchase from UNF all of the nylon POY produced from three dedicated production lines at a rate determined by index prices, subject to certain adjustments for market downturns. This vertical integration allows us to realize advantageous raw material pricing in our domestic nylon operations. Our investment in UNF at June 25, 2006 was $6.3 million. For fiscal years 2006, 2005 and 2004, we reported income (losses) in equity investees of $(0.8) million, $0.7 million and $1.1 million, respectively, from UNF.

Condensed balance sheet information as of June 25, 2006 and June 26, 2005, and income statement information for fiscal years 2006, 2005 and 2004, of the combined unconsolidated equity affiliates was as follows (in thousands):

	June 25, 2006	June 26, 2005
Current assets	$ 149,278	$ 127,188
Noncurrent assets	217,955	176,265
Current liabilities	48,334	28,235
Noncurrent liabilities	44,460	18,840
Shareholders equity and capital accounts	274,439	256,378

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	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Net sales	$ 567,223	$ 471,786	$ 469,512
Gross profit	31,853	40,312	7,880
Income (loss) from continuing operations	8,435	16,991	(15,928)
Net income (loss)	6,279	14,003	(20,183)

UTP. Minority interest (income) expense was $0.0 million, $(0.5) million and $(6.4) million, respectively, for fiscal years 2006, 2005 and 2004. The minority interest (income) expense recorded in the consolidated statements of operations for the fiscal years 2006, 2005 and 2004 primarily relates to the minority owner s share of the earnings of Unifi Textured Polyester, LLC, or UTP. We had an 85.4% ownership interest in UTP and Burlington Industries, LLC, which we refer to as BI, had a 14.6% interest in UTP. In April 2005, we acquired BI s ownership interest in UTP for $0.9 million in cash.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The SEC has defined a company s most critical accounting policies as those involving accounting estimates that require management to make assumptions about matters that are highly uncertain at the time and where different reasonable estimates or changes in the accounting estimate from quarter to quarter could materially impact the presentation of the financial statements. The following discussion provides further information about accounting policies critical to us and should be read in conjunction with Note 1, Significant Accounting Policies and Financial Statement Information of our audited historical consolidated financial statements included elsewhere in this prospectus.

Allowance for Doubtful Accounts. An allowance for losses is provided for known and potential losses arising from yarn quality claims and for amounts owed by customers. Reserves for yarn quality claims are based on historical claim experience and known pending claims. The collectability of accounts receivable is based on a combination of factors including the aging of accounts receivable, historical write-off experience, present economic conditions such as chapter 11 bankruptcy filings within the industry and the financial health of specific customers and market sectors. Since losses depend to a large degree on future economic conditions, and the health of the textile industry, a significant level of judgment is required to arrive at the allowance for doubtful accounts. Accounts are written off when they are no longer deemed to be collectible. The reserve for bad debts is established based on certain percentages applied to accounts receivable aged for certain periods of time and are supplemented by specific reserves for certain customer accounts where collection is no longer certain. Our exposure to losses as of June 25, 2006 on accounts receivable was $98.4 million against which an allowance for losses of $5.1 million was provided. Establishing reserves for yarn claims and bad debts requires management judgment and estimates, which may impact the ending accounts receivable valuation, gross margins (for yarn claims) and the provision for bad debts.

Inventory Reserves. We maintain reserves for inventories valued utilizing the first-in, first out, or FIFO, method and may provide for additional reserves over and above the last-in, first-out, or LIFO, reserve for inventories valued at LIFO. Such reserves for both FIFO and LIFO valued inventories can be specific to certain inventory or general based on judgments about the overall condition of the inventory. Reserves are established based on percentage markdowns applied to inventories aged for certain time periods. Specific reserves are established based on a determination of the obsolescence of the inventory and whether the inventory value exceeds amounts to be recovered through expected sales prices, less selling costs; and, for inventory subject to LIFO (raw materials only), the amount of existing LIFO reserves. The LIFO reserve has increased $3.8 million for fiscal year 2006, primarily due to increases in raw material prices and higher inventory levels. The balance of the LIFO reserve was $7.6 million as of June 25, 2006. Estimating sales prices, establishing markdown percentages and evaluating the condition of the inventories require judgments and estimates, which may impact the ending inventory valuation and gross margins.

Impairment of Long-Lived Assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets held and used, an impairment may occur if projected undiscounted cash flows are not adequate to cover the carrying value of the assets. In such cases, additional analysis is conducted to determine the amount of loss to be recognized. The impairment loss is determined by the difference between the carrying amount of the asset and the fair value measured by future discounted cash flows. The analysis requires estimates of the amount and timing of projected cash flows and, where applicable, judgments associated with, among other factors, the appropriate discount rate. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. During the third quarter of fiscal year 2004, we performed impairment testing on our domestic polyester texturing segment s long-lived assets and determined that a write down was required. Based on the historical financial performance of the segment and the uncertainty of the moderate forecasted cash flows, we estimated the fair value of assets using a market value of $73.7 million. Management determined that the assets were impaired because the carrying value was $98.9 million. This resulted in the segment recording an impairment charge of $25.2 million. We also tested for impairment the entire domestic polyester segment and domestic nylon segment, both of which passed the tests. Future events impacting cash flows for existing assets could render a write down necessary that previously required no such write down. See Note 14 to our audited consolidated financial statements included elsewhere in this prospectus.

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

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

Valuation Allowance for Deferred Tax Assets. We established a valuation allowance against our deferred tax assets in accordance with SFAS No. 109, Accounting for Income Taxes. The specifically identified deferred tax assets which may not be recoverable are primarily state income tax credits. The realization of some of our deferred tax assets is based on future taxable income within a certain time period and is therefore uncertain. On a quarterly basis, we review our estimates for future taxable income over a period of years to assess if the need for a valuation allowance exists. To forecast future taxable income, we use historical profit before tax amounts which may be adjusted upward or downward depending on various factors, including perceived trends, and then apply the expected change in rates to deferred tax assets and liabilities based on when they reverse in the future. At June 25, 2006, we had a gross deferred tax liability of approximately $10.8 million relating specifically to depreciation. The reversal of this deferred tax liability is the primary item generating future taxable income. Actual future taxable income may vary significantly from management s projections due to the many complex judgments and significant estimations involved, which may result in adjustments to the valuation allowance which may impact the net deferred tax liability and provision for income taxes.

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

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Results of Operations

Year ended June 25, 2006 (52 Weeks) Compared to the Year Ended June 26, 2005 (52 Weeks)

The following table sets forth the loss from continuing operations components for each of our business segments for fiscal year 2006 and fiscal year 2005. The table also sets forth each of our segments net sales as a percent to total net sales, the net income components as a percent to total net sales and the percentage increase or decrease of such components over the prior year:

	Fiscal Year 2006		Fiscal Year 2005		
		% to Total		% to Total	% Incr. (Decr.)
	(in thousands, except percentages)				
Consolidated					
Net sales					
Polyester	$ 566,367	76.7	$ 587,008	73.9	(3.5)
Nylon	172,458	23.3	206,788	26.1	(16.6)
Total	$ 738,825	100.0	$ 793,796	100.0	(6.9)
		% to Net Sales		% to Net Sales	
Cost of sales					
Polyester	$ 527,354	71.4	$ 558,498	70.4	(5.6)
Nylon	168,701	22.8	204,219	25.7	(17.4)
Total	696,055	94.2	762,717	96.1	(8.7)
Selling, general and administrative					
Polyester	32,771	4.4	30,291	3.8	8.2
Nylon	8,763	1.2	11,920	1.5	(26.5)
Total	41,534	5.6	42,211	5.3	(1.6)
Restructuring charges (recovery)					
Polyester	533	0.1	(212)		(351.4)
Nylon	(787)	(0.1)	(129)		510.1
Total	(254)	0.0	(341)		(25.5)

	Fiscal Year 2006		Fiscal Year 2005		
		% to Total		% to Total	% Incr. (Decr.)
	(in thousands, except percentages)				
Write down of long-lived assets					
Polyester	51				100.0
Nylon	2,315	0.3	603	0.1	283.9
Total	2,366	0.3	603	0.1	292.4
Other (income) expenses	15,020	2.0	21,827	2.7	(31.2)
Loss from continuing operations before income taxes	(15,896)	(2.1)	(33,221)	(4.2)	(52.2)
Benefit for income taxes	(1,170)	(0.2)	(13,483)	(1.7)	(91.3)
Loss from continuing operations	(14,726)	(1.9)	(19,738)	(2.5)	(25.4)

Income (loss) from discontinued operations, net of tax	360		(22,644)	(2.9)	(101.6)
Extraordinary gain net of taxes of $0			1,157	0.1	(100.0)
Net loss	$ (14,366)	(1.9)	$ (41,225)	(5.2)	(65.2)

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For fiscal year 2006, we recognized a $15.9 million loss from continuing operations before income taxes, which was a $17.3 million improvement from the prior year. The improvement in continuing operations was primarily attributable to increased polyester conversion margins, decreased selling, general and administrative expenses, reduced charges of $11.9 million for bad debt expenses offset by asset impairment charges and debt extinguishment expenses. The LIFO reserve increased $3.9 million for fiscal year 2006 compared to $2.4 million for the prior fiscal year. During fiscal year 2006, raw material prices increased for polyester ingredients in POY, causing the increase in LIFO reserve, whereas in fiscal year 2005 the primary drivers of the LIFO reserve were increases in nylon raw material prices and higher values in the nylon inventories due to the product mix.

Consolidated net sales from continuing operations decreased from $793.8 million in fiscal year 2005 to $738.8 million, or 6.9%, for the current fiscal year. For the fiscal year 2006, the weighted average price per pound for our products on a consolidated basis increased 6.1% compared to the prior year. Unit volume from continuing operations decreased 13.0% for the fiscal year primarily due to management s decision to focus on profitable business as well as market conditions.

At the segment level, polyester dollar net sales accounted for 76.7% of dollar net sales in fiscal year 2006 compared to 73.9% in fiscal year 2005. Nylon accounted for 23.3% of dollar net sales for fiscal year 2006 compared to 26.1% for the prior fiscal year.

Gross profit from continuing operations increased $11.7 million to $42.8 million for fiscal year 2006. This increase is primarily attributable to higher average selling prices for both the polyester and nylon segments.

Selling, general, and administrative expenses decreased by 1.6% or $0.7 million for the fiscal year. The decrease in selling, general and administrative expenses is due to the downsizing of our corporate departments and their related costs. During fiscal year 2005, we incurred approximately $1.1 million in professional fees associated with our efforts to become compliant with the Sarbanes-Oxley Act of 2002. During fiscal year 2006, we incurred $0.3 million in professional fees associated with Section 404 of the Sarbanes-Oxley Act.

For fiscal year 2006, we recorded a $1.3 million provision for bad debts, compared to $13.1 million recorded in the prior fiscal year. The decrease relates to our domestic operations and is primarily due to the write-off of receivables from Collins & Aikman, which filed for bankruptcy in May 2005, resulting in $8.2 million in additional bad debt expense. Although we experienced significant improvements in our collections during fiscal year 2006, the financial viability of certain customers continues to require close management scrutiny. As of June 25, 2006, we believed that our reserve for uncollectible accounts receivable was adequate.

Interest expense decreased from $20.6 million in fiscal year 2005 to $19.2 million in fiscal year 2006. The decrease in interest expense is primarily due to our repayment of a note payable relating to the Kinston acquisition. We had no outstanding borrowings under our amended revolving credit facility as of June 25, 2006 or our old revolving credit facility as of June 26, 2005. The weighted average interest rate of our debt outstanding at June 25, 2006 and June 26, 2005 was 6.9% and 6.7%, respectively. Interest expense is expected to increase in future periods due to our incurrence of $190.0 million of notes in May 2006 to refinance, in part, $248.7 million of our 2008 notes. Interest income increased from $2.1 million in fiscal year 2005 to $4.5 million in fiscal year 2006, which was due to the increased cash position that we maintained throughout most of fiscal year 2006.

Other (income) expense increased from $2.3 million of income in fiscal year 2005 to $3.1 million of income in fiscal year 2006. Fiscal year 2006 other income includes net gains from the sale of property and equipment of $1.8 million, offset by charges relating to currency translations and other expenses of $0.7 million. Fiscal year 2005 other income includes net gains from the sale of property and equipment of $1.8 million and net unrealized gains on hedging contracts of $1.7 million, offset by charges relating to currency translations and other expenses of $0.9 million.

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Equity in the net income of our equity affiliates, PAL, USTF, UNF, and YUFI, was $0.8 million in fiscal year 2006 compared to equity in net income of our equity affiliates of $6.9 million in fiscal year 2005. The decrease in earnings is primarily attributable to the $3.2 million loss that we incurred on our newly acquired investment in YUFI as discussed above. Our share of PAL s earnings decreased from a $6.4 million of income in fiscal year 2005 to $3.8 million of income in fiscal year 2006. PAL realized net losses on cotton futures contracts of $1.4 million for fiscal year 2006 compared to $1.4 million in realized net gains for fiscal year 2005. We expect to continue to receive cash distributions from PAL.

Minority interest income primarily relates to the minority owner s share of the earnings of UTP. We had an 85.4% ownership interest and BI had a 14.6% interest in UTP. In April 2005, we acquired BI s ownership interest for $0.9 million in cash. As a result, we recorded no minority interest income for fiscal year 2006 compared to minority interest income of $0.5 million in fiscal year 2005.

In fiscal year 2006, our nylon segment recorded charges of $2.3 million to write down to fair value less cost to sell a nylon manufacturing plant and a nylon warehouse. In the fourth quarter of fiscal year 2005, our nylon segment recorded a $0.6 million charge to write down to fair value less cost to sell 166 textile machines that was held for sale.

We have established a valuation allowance against our deferred tax assets relating primarily to North Carolina income tax credits. The valuation allowance decreased $1.7 million in fiscal year 2006 compared to a decrease of $2.2 million in fiscal year 2005. The gross decrease of $3.6 million in fiscal year 2006 consisted of the expiration of unused North Carolina income tax credits. The gross decrease of $3.0 million in fiscal year 2005 consisted of the expiration of unused North Carolina income tax credits of $2.2 million and the expiration of a long-term capital loss carryforward of $0.8 million. Due to lower estimates of future state taxable income, the portion of the valuation allowance that relates to North Carolina income tax credits increased $1.9 million and $0.8 million in fiscal years 2006 and 2005, respectively. The net impact of changes in the valuation allowance to the effective tax rate reconciliation for fiscal years 2006 and 2005 were 11.9% and 2.5%, respectively. The percentage increase from fiscal year 2006 to fiscal year 2005 was primarily attributable to lower forecasted state taxable income.

We recognized an income tax benefit in fiscal year 2006 at a 7.4% effective tax rate, compared to an income tax benefit at a 40.6% effective tax rate in fiscal year 2005. The fiscal year 2006 effective rate was negatively impacted by foreign losses for which no tax benefit was recognized, the change in the deferred tax valuation allowance and tax expense not previously accrued for repatriation of foreign earnings. In fiscal year 2006, we recognized a state income tax benefit net of federal income tax of 10.4%, as compared to 4.2% in fiscal year 2005. The increase in fiscal year 2006 was primarily attributable to the pass through of $1.2 million of state income tax credits from an equity affiliate.

The American Jobs Creation Act of 2004, or the AJCA, created a temporary incentive for U.S. multinational corporations to repatriate accumulated income earned outside the U.S. by providing an 85% dividend received deduction for certain dividends from controlled foreign corporations. Under the AJCA, the amount of eligible repatriation was limited to $500.0 million or the amount described as permanently reinvested earnings outside the U.S. in the most recent audited financial statements filed with the SEC on or before June 30, 2003. Dividends received must be reinvested in the U.S. in certain permitted uses. We repatriated $31.0 million in fiscal year 2006 resulting from approximately $45.0 million of proceeds from the liquidation of our European manufacturing operations and $16.0 million of accumulated income from our Brazilian operations, less approximately $30.0 million re-invested in YUFI. We have not made any changes to our position on the reinvestment of other foreign earnings.

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The following summarizes our operating results after restatements for discontinued operations (See Corporate Restructurings):

	Fiscal Year 2006	Fiscal Year 2005
	(in thousands, except per share data)	
Loss from continuing operations before extraordinary item	$ (14,726)	$ (19,738)
Income (loss) from discontinued operations, net of tax	360	(22,644)
Loss before extraordinary item	(14,366)	(42,382)
Extraordinary gain net of taxes of $0		1,157
Net loss	$ (14,366)	$ (41,225)
Income (losses) per common share (basic and diluted):		
Loss from continuing operations before extraordinary item	$ (0.28)	$ (0.38)
Loss from discontinued operations, net of tax		(0.43)
Extraordinary gain net of taxes of $0		0.02
Net loss per common share	$ (0.28)	$ (0.79)

Polyester Operations

The following table sets forth the segment operating gain (loss) components for our polyester segment for fiscal year 2006 and fiscal year 2005. The table also sets forth the percent to net sales and the percentage increase or decrease over the prior year:

	Fiscal Year 2006		Fiscal Year 2005		
		% to Net Sales		% to Net Sales	% Inc. (Dec.)
	(in thousands, except percentages)				
Net sales	$ 566,367	100.0	$ 587,008	100.0	(3.5)
Cost of sales	527,354	93.1	558,498	95.1	(5.6)
Selling, general and administrative expenses	32,771	5.8	30,291	5.2	8.2
Restructuring charges (recovery)	533	0.1	(212)		(351.4)
Write down of long-lived assets	51				
Segment operating income (loss)	$ 5,658	1.0	$ (1,569)	(0.3)	(460.6)

Fiscal year 2006 polyester net sales decreased $20.6 million, or 3.5%, compared to fiscal year 2005. Our polyester segment sales volumes decreased approximately 11.8%, while the weighted-average unit prices increased approximately 8.3%.

Domestically, polyester sales volumes decreased 15.2%, while average unit prices increased approximately 8.7%. Sales from our Brazilian texturing operation, on a local currency basis, decreased 11.2% over fiscal year 2005 due primarily to the devaluation of the U.S. dollar against the Brazilian real. The Brazilian texturing operation predominately purchased all of its fiber in U.S. dollars. The impact on net sales from this operation on a U.S. dollar basis as a result of the change in currency exchange rate was an increase of $17.2 million in fiscal year 2006.

Gross profit on sales for our polyester operations increased $10.5 million, or 36.8%, over fiscal year 2005, and gross margin (gross profit as a percentage of net sales) increased from 4.9% in fiscal year 2005 to 6.9% in fiscal year 2006. The increase from the prior year is primarily attributable to an increase in higher average selling prices as well as costs savings realized from the consolidation of warehousing and transportation services, and the curtailment of two POY production lines at the Kinston facility. In addition, fiber cost decreased as a percent of net sales from 54.8% in fiscal year 2005 to 52.4% in fiscal year 2006.

Selling, general and administrative expenses for the polyester segment increased $2.5 million from fiscal years 2005 to 2006. While the methodology to allocate domestic selling, general and administrative costs

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remained consistent between fiscal year 2005 and fiscal year 2006, the percentage of such costs allocated to each segment are determined at the beginning of every year based on specific cost drivers. The polyester segment had a higher percentage in fiscal year 2006 compared to fiscal year 2005 due to the addition of the Kinston manufacturing operations to the polyester segment.

Our polyester segment net sales, gross profit and selling, general and administrative expenses as a percentage of total consolidated amounts were 73.9%, 91.7% and 71.8% for fiscal year 2005 compared to 76.7%, 91.2% and 78.9% for fiscal year 2006, respectively.

Restructuring charges of $0.5 million in fiscal year 2006 were related to adjustments for severance, retiree reserves and charges related to the polyester segment of Unifi Latin America.

The pre-tax results of operations from the polyester segment of our Brazilian operations increased $0.2 million in fiscal year 2006 compared to fiscal year 2005. This increase is primarily due to a $0.9 million increase in interest income, a $0.2 million reduction in bad debt expense, a $1.1 million increase in other (income) expense, net offset by a $0.9 million reduction in gross margin and a $1.1 million increase in selling, general and administrative costs.

Nylon Operations

The following table sets forth the segment operating loss components for our nylon segment for fiscal year 2006 and fiscal year 2005. The table also sets forth the percent to net sales and the percentage increase or decrease over the prior year:

	Fiscal Year 2006	% to Net Sales	Fiscal Year 2005	% to Net Sales	% Inc. (Dec.)
	(in thousands, except percentages)				
Net sales	$ 172,458	100.0	$ 206,788	100.0	(16.6)
Cost of sales	168,701	97.8	204,219	98.8	(17.4)
Selling, general and administrative expenses	8,763	5.1	11,920	5.8	(26.5)
Restructuring charges (recovery)	(787)	(0.4)	(129)	(0.1)	510.1
Write down of long-lived assets	2,315	1.3	603	0.3	283.9
Segment operating loss	$ (6,534)	(3.8)	$ (9,825)	(4.8)	(33.5)

Fiscal year 2006 nylon net sales decreased $34.3 million, or 16.6%, compared to fiscal year 2005. Unit volumes for fiscal year 2006 decreased 23.4%, while the average selling price increased 6.9%. Weighted-average selling prices increased in fiscal year 2006 due to a greater percentage of higher priced products being sold and to sales price increases instituted during the third quarter.

Gross profit increased $1.2 million, or 46.2%, in fiscal year 2006, and gross margin increased from 1.2% in fiscal year 2005 to 2.2% in fiscal year 2006. This was primarily attributable to higher per unit sales prices, cost savings associated with closing a central distribution center and closing two nylon manufacturing facilities. Fiber costs decreased from 64.5% of net sales in fiscal year 2005 to 60.1% of net sales in fiscal year 2006 due to the incremental change in product mix driven by our supply agreement with Sara Lee Branded Apparel, now Hanesbrands Inc., and the increased unit continued prices in fiscal year 2006. Fixed and variable manufacturing costs increased as a percentage of sales from 30.6% in fiscal year 2005 to 35.5% in fiscal year 2006.

Selling, general and administrative expenses for the nylon segment decreased $3.1 million in fiscal year 2006. This decrease as a percentage of net sales is primarily due to a reduced allocation percentage of selling, general and administrative expenses to the nylon segment due to additional business from the polyester segment s Kinston manufacturing operation.

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Our nylon segment net sales, gross profit and selling, general and administrative expenses as a percentage of total consolidated amounts were 26.1%, 8.3% and 28.2% for fiscal year 2005 compared to 23.3%, 8.8% and 21.1% for fiscal year 2006, respectively.

Restructuring recoveries of $0.8 million in fiscal year 2006 were related to adjustments for severance, retiree reserves and recoveries of 2001 reserves related to the nylon segment of Unifi Latin America.

See Corporate Restructurings for a discussion of the closure and relocation of certain of our nylon facilities in Mayodan, North Carolina.

Year Ended June 26, 2005 (52 Weeks) Compared to the Year Ended June 27, 2004 (52 Weeks)

The following table sets forth the loss from continuing operations components for each of our business segments for fiscal year 2005 and fiscal year 2004. The table also sets forth each of our segments net sales as a percent to total net sales, the net income components as a percent to total net sales and the percentage increase or decrease of such components over the prior year:

	Fiscal Year 2005		**Fiscal Year 2004**		**% Inc.**
		% to Total		**% to Total**	**(Dec.)**
	(in thousands, except percentages)				
Consolidated					
Net sales					
Polyester	$ 587,008	73.9	$ 481,847	72.3	21.8
Nylon	206,788	26.1	184,536	27.7	12.1
Total	$ 793,796	100.0	$ 666,383	100.0	19.1
		% to Net Sales		**% to Net Sales**	
Cost of sales					
Polyester	$ 558,498	70.4	$ 449,121	67.4	24.4
Nylon	204,219	25.7	176,862	26.5	15.5
Total	762,717	96.1	625,983	93.9	21.8
Selling, general and administrative					
Polyester	30,291	3.8	34,835	5.2	(13.0)
Nylon	11,920	1.5	11,128	1.7	7.1
Total	42,211	5.3	45,963	6.9	(8.2)
Restructuring charges (recovery)					
Polyester	(212)		7,591	1.1	
Nylon	(129)		638	0.1	
Total	(341)		8,229	1.2	
Arbitration costs and expense Polyester			182		
Alliance plant closure costs (recovery) Polyester			(206)		
		% to Net Sales		**% to Net Sales**	
Write down of long-lived assets					
Polyester			25,241	3.8	
Nylon	603	0.1			

Total	603	0.1	25,241	3.8	(97.6)
Goodwill impairment Polyester			13,461	2.0	
Other (income) expenses	21,827	2.7	16,792	2.5	30.0
Loss from continuing operations before income taxes	(33,221)	(4.2)	(69,292)	(10.4)	(52.0)
Benefit for income taxes	(13,483)	(1.7)	(25,113)	(3.8)	(46.3)
Loss from continuing operations	(19,738)	(2.5)	(44,149)	(6.6)	(55.3)
Loss from discontinued operations, net of tax	(22,644)	(2.9)	(25,644)	(3.8)	(11.7)
Extraordinary gain net of taxes of $0	1,157	0.1			
Net loss	$ (41,225)	(5.2)	$ (69,793)	(10.5)	(40.9)

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For fiscal year 2005, we recognized a $33.2 million loss from continuing operations before income taxes, which was a $36.0 million improvement from fiscal year 2004. The improvement in continuing operations was primarily attributable to $38.7 million in charges for asset write downs and goodwill impairment included in fiscal year 2004 that did not occur in 2005, consisted of a $25.2 million impairment of fixed assets in our domestic polyester segment and the write down of $13.5 million of goodwill related to UTP. During fiscal year 2005, raw material prices declined slightly and selling prices increased slightly due in part to efforts to improve gross margin.

Consolidated net sales from continuing operations increased from $666.4 million to $793.8 million, or 19.1%, for fiscal year 2005. Included in fiscal year 2005 net sales amounts are $117.7 million related to revenue generated from the Kinston acquisition. Unit volume from continuing operations increased 19.6% for the year, while average net selling prices decreased by 0.4%. The primary driver of the increase in unit volumes is the Kinston acquisition. The increase in net selling price was reduced by 10.5% due to the Kinston operation which sold lower priced commodity products. See the polyester segment discussion below for further analysis on the effects of the Kinston acquisition on fiscal year 2005.

At the segment level, polyester dollar net sales accounted for 73.9% of consolidated net sales in fiscal year 2005 compared to 72.3% in fiscal year 2004. Nylon accounted for 26.1% of consolidated net sales for fiscal year 2005 compared to 27.7% for fiscal year 2004.

Gross profit from continuing operations decreased $9.3 million to $31.1 million for fiscal year 2005. Gross profit for the nylon segment decreased by $5.1 million as a result of increased importation of socks and the decline in domestic demand for sheer hosiery as well as a change in product mix due to the supply agreement with Sara Lee Branded Apparel. The gross profit for the polyester segment decreased by $4.2 million due to the delay in passing increased polyester fiber prices to customers during the first half of fiscal year 2005 and the reduction of cost saving benefits from the DuPont alliance and the subsequent acquisition of the Kinston facility. We recognized, as a reduction of cost of sales, cost savings and other benefits from our alliance with DuPont at the Kinston facility of $8.4 million in fiscal year 2005 compared to $38.2 million in fiscal year 2004. In addition, we sold off inventory during the fourth quarter of fiscal year 2005 that was slow moving at below cost in order to reduce our inventories and improve our working capital position, which resulted in a $3.1 million loss in fiscal year 2005.

Selling, general and administrative expenses decreased by 8.2% or $3.8 million for fiscal year 2005. The decrease in selling, general, and administrative expenses was due to the downsizing of our corporate departments and reducing their related costs. During fiscal year 2005, we incurred approximately $1.1 million in professional fees associated with our efforts to become compliant with the Sarbanes-Oxley Act.

For fiscal year 2005, we recorded a $13.2 million provision for bad debts, compared to $2.4 million recorded in fiscal year 2004. The increase relates to our domestic operations and is primarily due to the write-off of debts of one customer who filed for bankruptcy in May 2005, resulting in $8.2 million in additional bad debt expense. Fiscal year 2005 continued to be a challenging year for the U.S. textile industry, particularly in the apparel sector. The financial viability of certain customers continued to require close management scrutiny. Management believes that the reserve for uncollectible accounts receivable is adequate.

Interest expense increased from $18.7 million in fiscal year 2004 to $20.6 million in fiscal year 2005. The increase in interest expense was primarily due to the interest payable on the notes we issued to the seller in the Kinston acquisition. We had no outstanding borrowings under our old revolving credit facility at June 26, 2005 and June 27, 2004, and have had no borrowings under this facility since October 3, 2002. The weighted average interest rate of our debt outstanding at June 26, 2005 and June 27, 2004 was 6.7% and 6.4%, respectively. Interest income remained at $2.2 million in fiscal year 2004 and $2.2 million in fiscal year 2005.

Other (income) expense decreased from $2.6 million of income in fiscal year 2004 to $2.3 million of income in fiscal year 2005. Fiscal year 2004 income included net gains from the sale of property and equipment of $3.2 million, offset by other expenses of $0.7 million. Fiscal year 2005 income includes net gains from the sale of property and equipment of $1.8 million and net unrealized gains on hedging contracts of $1.7 million, offset by charges relating to currency translations and other expenses of $0.9 million.

Equity in the net income of our equity affiliates, PAL, USTF and UNF, totaled $6.9 million in fiscal year 2005 compared to equity in net loss of our equity affiliates of $6.9 million in fiscal year 2004. Our share of PAL s earnings improved from a $6.9 million loss in fiscal year 2004 to $6.4 million of income in fiscal year 2005. The increase in earnings is primarily attributable to PAL s higher operating profit due primarily to lower cotton prices and realized net gains on cotton futures contracts. PAL realized gains on future contracts of $1.4 million in fiscal year 2005 compared to net losses of $4.7 million on future contracts for cotton purchases in fiscal year 2004. PAL reported net income of $8.2 million in calendar year 2005 as compared to a net loss of $9.8 million in calendar year 2004. As a result of this financial improvement, we expect to continue to receive cash distributions from PAL.

We recorded minority interest income of $0.5 million for fiscal year 2005 compared to minority interest income of $6.4 million in fiscal year 2004. Minority interest recorded in our consolidated statements of operations primarily relates to the minority owner s share of the earnings of UTP. See Joint Ventures and Other Equity Investments.

In the fourth quarter of fiscal year 2005, our nylon segment recorded a $0.6 million charge to write down to fair value less cost to sell 166 textile machines that are held for sale.

We have established a valuation allowance against our deferred tax assets relating primarily to North Carolina income tax credits. The valuation allowance decreased $2.2 million in fiscal year 2005 compared to an increase of $2.6 million in fiscal year 2004. The gross decrease of $3.0 million in fiscal year 2005 consisted of the expiration of unused North Carolina income tax credits of $2.2 million and the expiration of a long-term capital loss carry forward of $0.8 million. Due to lower estimates of future state taxable income, the portion of the valuation allowance that relates to North Carolina income tax credits increased $0.8 million and $2.6 million in fiscal years 2005 and 2004, respectively. In fiscal year 2004, the increase to the reserve also included $0.8 million that related to a long-term capital loss carry forward that we did not expect to utilize before it was scheduled to expire in fiscal year 2005. The net impact of changes in the valuation allowance to the effective tax rate reconciliation for fiscal years 2005 and 2004 were 2.5% and 5.7%, respectively. The percentage decrease from fiscal year 2005 to fiscal year 2004 is primarily attributable to the stabilization of forecasted state taxable income.

We recognized an income tax benefit in fiscal year 2005 at a 40.6% effective tax rate compared to an income tax benefit at a 36.3% effective tax rate in fiscal year 2004. Fiscal year 2005 effective rate was positively impacted by a reduction in the change to the valuation allowance, an increase in the utilization of state tax losses and a change in the tax status of a subsidiary. Fiscal year 2005 effective rate was also positively impacted by the recording of a deferred tax asset for a foreign subsidiary that should have been previously recognized. We recorded this deferred tax asset of $1.2 million in the fourth quarter of fiscal year 2005. We evaluated the effect of the adjustment and determined that the differences were not material for any of the periods presented in our consolidated financial statements. The fiscal year 2005 effective tax rate was negatively impacted by the accrual required by management s decision to repatriate approximately $15.0 million from controlled foreign corporations under the provisions of the AJCA.

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The following summarizes the results of the above and the prior year after restatements for discontinued operations (See Corporate Restructuring):

	Fiscal Year 2005	Fiscal Year 2004
	(in thousands, except per share data)	
Loss from continuing operations before extraordinary item	$ (19,738)	$ (44,149)
Loss from discontinued operations, net of tax	(22,644)	(25,644)
Loss before extraordinary item	(42,382)	(69,793)
Extraordinary gain net of taxes of $0	1,157	
Net loss	$ (41,225)	$ (69,793)
Income (losses) per common share (basic and diluted):		
Loss from continuing operations before extraordinary item	$ (0.38)	$ (0.85)
Loss from discontinued operations, net of tax	(0.43)	(0.49)
Extraordinary gain net of taxes of $0	0.02	
Net loss per common share	$ (0.79)	$ (1.34)

Polyester Operations

The following table sets forth the segment operating loss components for our polyester segment for fiscal year 2005 and fiscal year 2004. The table also sets forth the percent to net sales and the percentage increase or decrease over the prior year:

	Fiscal Year 2005	% to Net Sales	Fiscal Year 2004	% to Net Sales	% Inc. (Dec.)
	(in thousands, except percentages)				
Net sales	$ 587,008	100.0	$ 481,847	100.0	21.8
Cost of sales	558,498	95.1	449,121	93.2	24.4
Selling, general and administrative expenses	30,291	5.2	34,835	7.2	(13.0)
Restructuring charges (recovery)	(212)		7,591	1.6	(102.8)
Arbitration costs and expenses			182		
Alliance plant closure costs (recovery)			(206)		
Write down of long-lived assets			25,241	5.2	
Goodwill impairment			13,461	2.8	
Segment operating loss	$ (1,569)	(0.3)	$ (48,378)	(10.0)	(96.8)

Fiscal year 2005 polyester net sales increased $105.2 million, or 21.8%, compared to fiscal year 2004. Our segment sales volumes and average unit prices increased approximately 21.3% and 0.5%, respectively. The increase was due mainly to the Kinston acquisition on September 30, 2004, which contributed $77.9 million of net sales that were realized in the second half of fiscal year 2005.

Domestically, our polyester sales volumes increased 28.3% while average unit prices declined approximately 4.5%. Sales from our Brazilian texturing operation, on a local currency basis, increased 3.7% over fiscal year 2004 due primarily to sales price adjustments for changes in the inflation index which were significant during fiscal year 2005. The impact on net sales from this operation on a U.S. dollar basis as a result of the change in currency exchange rate was an increase of $6.1 million.

Gross profit on sales for our polyester operations decreased $4.2 million, or 12.9%, over fiscal year 2004, while gross margin (gross profit as a percentage of net sales) declined from 6.8% in fiscal year 2004 to 4.9% in fiscal year 2005. These decreases were primarily attributable to an increase in fixed and variable manufacturing costs which were 38.4% of net sales in fiscal year 2005 compared to 37.5% of net sales in fiscal year 2004. In

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addition, fiber cost increased as a percent of net sales from 52.6% in fiscal year 2004 to 54.8% in fiscal year 2005. We also recognized, as a reduction of cost of sales, cost savings and other benefits from our alliance with DuPont of $8.4 million and $38.2 million for fiscal years 2005 and 2004, respectively. Following the Kinston acquisition, the benefits to us from our alliance with DuPont ended.

Selling, general and administrative expenses for this segment decreased $4.5 million from fiscal year 2004 to fiscal year 2005. While the methodology to allocate domestic selling, general and administrative costs remains consistent between fiscal year 2004 and fiscal year 2005, the percentage of such costs allocated to each segment is determined at the beginning of every year based on specific cost drivers. The polyester segment s share of these costs for fiscal year 2005 was lower compared to fiscal year 2004 due to increases in the nylon segment s share of these cost drivers.

The polyester segment net sales, gross profit and selling, general and administrative expenses for fiscal year 2005 were 73.9%, 91.7% and 71.8%, respectively, of consolidated amounts compared to 72.3%, 81.0% and 75.8%, respectively, for fiscal year 2004.

Restructuring charges of $7.6 million in fiscal year 2004 were primarily caused by relocation of the air jet texturing business from Altamahaw, North Carolina, to Yadkinville, North Carolina, which resulted in an accrual for future lease obligations. During the third quarter of fiscal year 2004, management performed impairment testing for the domestic textured polyester business due to the continued challenging business conditions and reduction in volume and gross profit in the preceding quarter. As a result, management determined that our plant, property and equipment were impaired, and we recorded a $25.2 million write down of the assets. As a result of the testing, we also recorded a goodwill impairment charge of $13.5 million in the third quarter of fiscal year 2004 to eliminate the polyester segment s goodwill.

Our international polyester pre-tax results of operations for the polyester segment s Brazilian location declined $4.6 million in fiscal year 2005 compared to fiscal year 2004. This decline is primarily due to a 4.8% increase in the cost of fiber, a 4.5% decrease in volume and a $0.5 million increase in selling, general and administrative costs.

Nylon Operations

The following table sets forth the segment operating loss components for our nylon segment for fiscal year 2005 and fiscal year 2004. The table also sets forth the percent to net sales and the percentage increase or decrease over the prior year:

	Fiscal Year 2005		Fiscal Year 2004		
		% to Net Sales		% to Net Sales	% Inc. (Dec.)
	(in thousands, except percentages)				
Net sales	$ 206,788	100.0	$ 184,536	100.0	12.1
Cost of sales	204,219	98.8	176,862	95.8	15.5
Selling, general and administrative expenses	11,920	5.8	11,128	6.0	7.1
Restructuring charges (recovery)	(129)	(0.1)	638	0.4	(120.2)
Write down of long-lived assets	603	0.3			
Segment operating loss	$ (9,825)	(4.8)	$ (4,092)	(2.2)	140.1

Fiscal year 2005 nylon net sales increased $22.3 million, or 12.1%, compared to fiscal year 2004. Unit volumes for fiscal year 2005 increased 5.9% while the average selling price increased 6.2%. We acquired the Sara Lee hosiery yarn business for $2.6 million and completed the integration of its operations and sales volume during 2004. We entered into a five-year branded apparel supply agreement with Sara Lee in April 2004. The increase in sales volume and price is primarily attributable to higher sales resulting from the Sara Lee agreement.

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These incremental sales were offset by erosion in our U.S. customer base due primarily to an increase in the importation of socks into the domestic market and a decline in domestic demand for sheer hosiery products.

Gross profit for our nylon operations decreased $5.1 million, or 66.5%, over fiscal year 2004 while gross margin decreased from 4.2% in fiscal year 2004 to 1.2% in fiscal year 2005. These decreases are primarily attributable to reductions in per unit sales prices in excess of reduced unit costs for raw materials. Fiber costs increased from 62.0% of net sales in fiscal year 2004 to 64.5% of net sales in fiscal year 2005 due to the incremental change in product mix driven by the Sara Lee agreement. Fixed and variable manufacturing costs decreased as a percentage of sales from 30.9% in fiscal year 2004 to 30.6% in fiscal year 2005.

Selling, general and administrative expense for our nylon segment increased $0.8 million in fiscal year 2005. This increase is due to a significantly larger allocation of selling, general and administrative expenses based on cost drivers which were affected by increased sales volumes directly related to the Sara Lee agreement. The increase in volumes attributable to the Sara Lee agreement more than offset the overall reduction of selling, general and administrative expense that we realized.

The nylon segment net sales, gross profit and selling, general and administrative expenses for fiscal year 2005 were 26.1%, 8.3% and 28.2%, respectively, of consolidated amounts compared to 27.7%, 19.0% and 24.2%, respectively, for fiscal year 2004.

Restructuring expenses of $0.6 million in fiscal year 2004 were related to severance. In June 2005, we entered into a contract to sell 166 machines held by the nylon segment. As a result, a $0.6 million impairment of long-lived assets was recorded to write the assets down to their fair value less cost to sell.

Liquidity and Capital Resources

Cash Provided by Continuing Operations

Cash used in continuing operations was $4.4 million for the three months ended September 24, 2006, compared to cash used in continuing operations of $1.0 million for the corresponding period of the prior year. One primary reason for the $3.4 million decrease in cash from operating activities was the increase in our net losses to $11.1 million for the first quarter of fiscal year 2007 compared to $3.1 million for the first quarter of fiscal year 2006. In addition, due to reductions in the reserves for bad debts in the first quarter of fiscal year 2005, we experienced a $1.4 million reduction in operating cash flows relating to deferred taxes. Offsetting these reductions were increased non-cash expenses of $2.7 million, increased working capital of $2.2 million and increases in the provision for bad debts of $1.1 million. The increase in working capital was a result of reductions in receivables, inventories and current liabilities due to lower sales and production demands. We ended our first quarter of fiscal year 2007 with working capital of $182.0 million, which included cash and cash equivalents of $29.5 million, compared to working capital at June 25, 2006 of $179.5 million. While the market demand for our products has trended downward, we have taken steps to improve our cash flows from operations by focusing on improved sales mix, improved operating efficiencies and other cost saving strategies.

Our net loss decreased to $14.4 million in fiscal year 2006 compared to $41.6 million in fiscal year 2005, while we generated $30.1 million of cash from continuing operations in fiscal year 2006 compared to $28.8 million in fiscal year 2005. A significant amount of the change in net loss was due to the net effect of items that had no impact on cash from continuing operations, including:

- approximately $23.0 million of change in net losses from discontinued operations from fiscal year 2005 related to the closure of our European division and the related restructuring charges, which were offset by the gains on the sale of the Ireland assets;

- approximately $11.9 million of change in cash flows from a decrease in our provision for bad debts in fiscal year 2006, due primarily to the non-recurrence of $8.2 million of bad debt expense that we incurred in fiscal year 2005 related to the bankruptcy of Collins & Aikman; offset partially by approximately $4.2 million of increase in net losses from equity affiliates, net of distributions in fiscal year 2006, due primarily to our new investment in YUFI; and

approximately $11.2 million of decreases in deferred income taxes in fiscal year 2006, due primarily to book depreciation in excess of federal tax depreciation, decreases in investments in equity affiliates, decreases in reserves for accounts receivable and severance, and increases in net operating losses, which reduced our deferred tax obligation.

In addition, as a result of the Kinston acquisition in the first quarter of fiscal year 2005 and its non-cash effects on inventory of $24.4 million, we had an increase in use of cash for working capital in fiscal year 2006 of $26.4 million. Raw material price increases experienced in the first and third quarters of fiscal year 2006 due to supply shortages also contributed to an increase in use of cash for inventories. We also experienced an increase in cash generated from accounts receivable of $12.1 million, which was offset by the write off of accounts receivable of Collins & Aikman in fiscal year 2005. Our accounts receivable fiscal year end 2006 account balance was reduced because of lower sales volumes.

Our net loss decreased to $41.6 million in fiscal year 2005 compared to $69.8 million in fiscal year 2004, while we generated $28.8 million of cash from continuing operations in fiscal year 2005, compared to $11.4 million in fiscal year 2004. A significant amount of the change in net loss was due to the net effect of items that had no impact on cash from continuing operations, including:

approximately $3.0 million of change in net loss from discontinued operations from fiscal year 2005 that related to the closure of our European division and the related restructuring charges;

an increase of approximately $11.0 million in earnings from equity affiliates that were not distributed in cash, primarily attributable to PAL, which realized higher operating profits due to lower cotton prices and realized gains on cotton futures;

approximately $38.1 million of aggregate change in net loss resulting from the non-recurrence of our write down in fiscal year 2004 of the long-lived assets related to our domestic textured polyester segment and of goodwill related to UTP; offset partially by

an increase in the provision for bad debts in fiscal year 2005 of $10.8 million, which includes $8.2 million related to the bankruptcy of Collins & Aikman; and

a decrease in deferred taxes of $9.1 million, primarily resulting from book depreciation in excess of federal tax depreciation, increases in reserves for accounts receivable and severance, and increases in net operating losses, which reduced our deferred tax obligation.

Other uses of cash included changes in losses from continuing operations, reduced impairment charges and other items netting to $12.2 million.

In addition, inventories declined in fiscal year 2005, but we experienced a $21.4 million upward adjustment to earnings for inventory caused primarily by a $24.4 million upward adjustment related to the non-cash effects on inventory from the Kinston acquisition. Accounts receivable was $19.0 million lower at the end of fiscal year 2005 due in part to the write off of accounts receivable of Collins & Aikman.

Working capital changes do not include the effects of discontinued operations. Working capital changes have been adjusted to exclude the effects of acquisitions and currency translation for all years presented, where applicable.

Cash Used in Investing and Financing Activities

We utilized $1.1 million for net investing activities and $0.4 million in net financing activities during the first three months of fiscal year 2007. The primary cash expenditures for investing and financing activities during this period included $1.4 million for capital expenditures, $0.4 million for other financing activities offset by a

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return of capital from equity affiliates of $0.2 million and collections of notes receivable of $0.1 million. As of September 24, 2006, we were not committed to any significant capital expenditures; however, we expect to spend approximately $12.0 to $15.0 million primarily for maintenance capital expenditures and equipment and technology upgrades during the remainder of fiscal year 2007.

We utilized $29.2 million for net investing activities and $90.2 million in net financing activities during fiscal year 2006. The primary cash expenditures during fiscal year 2006 included $248.7 million to retire the 2008 notes, $30.6 million for our investment in YUFI, $24.4 million for early payment of note payable in connection with the Kinston acquisition, $12.0 million for capital expenditures and $8.0 million for issuance and debt refinancing costs, offset by $190.0 million in proceeds from the issuance of the initial notes, proceeds from the sale of capital assets of $10.1 million, decreased restricted cash of $2.7 million, other financing activities of $1.0 million, and other investing activities of $0.5 million. Due to the refinancing of the 2008 notes, cash used for interest will increase $5.6 million per year from $16.2 million to $21.8 million.

We utilized net cash of $4.7 million for investing activities in fiscal year 2005, which included $9.4 million for capital expenditures, $2.7 million for a deposit of restricted cash, and $1.4 million for acquisition related costs. These amounts were offset by $6.1 million for return of capital on investments from equity affiliates, $2.3 million of proceeds from sales of capital assets and $0.4 million, net of other investing activities. Net cash provided by financing activities increased by $0.1 million in fiscal year 2005 due to the issuance of common stock under the exercise of stock options.

We utilized $5.8 million for net investing activities and $8.5 million for net financing activities during fiscal year 2004. Significant expenditures during this period included $11.1 million for capital expenditures which included the $2.6 million purchase of the Sara Lee assets, and $3.6 million in capitalized software costs. Additionally, $8.4 million was expended for repurchasing our stock.

We believe that cash generated by operations and assets held for sale together with access to our amended revolving credit agreement as described below, will be sufficient to meet all operating and capital needs in the foreseeable future.

Long-Term Debt

Concurrent with the closing of the issuance of the initial notes, we also entered into an amended revolving credit facility. We used the net proceeds of the issuance of the initial notes, borrowings under our amended revolving credit facility and cash on hand to pay the consideration for the 2008 notes tendered in the tender offer.

Tender Offer for the 2008 Notes. On April 28, 2006, we commenced a tender offer for all of our then outstanding $250.0 million in aggregate principal amount of 2008 notes, simultaneously with a consent solicitation from the holders of the 2008 notes to remove substantially all of the restrictive covenants and certain events of default under the indenture governing the 2008 notes. The tender offer expired on May 25, 2006, and $248.7 million in aggregate principal amount of 2008 notes were tendered in the tender offer, representing 99.5% of the then outstanding aggregate principal amount of 2008 notes. The $1.3 million in aggregate principal amount of 2008 notes that were not tendered and purchased in the tender offer remain outstanding in accordance with their amended terms. We funded the purchase price in the tender offer with available cash, borrowings under our amended revolving credit facility and proceeds from the initial notes offering. As a result of the tender offer and the initial notes offering, we expect that our interest expense will increase by approximately $5.6 million per year.

Senior Secured Notes. The notes will mature in 2014 and bear interest at the rate set forth on the cover of this prospectus. The notes are secured as described in Description of the Notes. The indenture contains customary restrictive covenants. See Description of the Notes Certain Covenants.

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Amended Revolving Credit Facility. Concurrently with the closing of the initial notes offering, we amended our old revolving credit facility to extend its maturity to 2011, permit the initial notes offering and this exchange offer, give us the ability to request that the borrowing capacity be increased up to $150.0 million under certain circumstances and revise some of its other terms and covenants. The amended revolving credit facility matures in 2011. The borrowings under the amended revolving credit facility are collateralized by first-priority liens, subject to permitted liens, in among other things, our inventory, accounts receivable, general intangibles (other than uncertificated capital stock of subsidiaries and other persons), investment property (other than capital stock of subsidiaries and other persons), chattel paper, documents, instruments, letter of credit rights, deposit accounts and other related personal property and all proceeds relating to any of the above and by second-priority liens, subject to permitted liens, on our and our subsidiary guarantors assets that secure the notes and guarantees on a first-priority basis, in each case, other than certain excluded assets. Our ability to borrow under our amended revolving credit facility is limited to a borrowing base equal to specified percentages of eligible accounts receivable and inventory and is subject to other conditions and limitations. As of September 24, 2006, there were no amounts outstanding under our amended revolving credit facility, and based on our calculation as of that date, $93.5 million was available for borrowing under the borrowing base of this facility (net of $5.3 million to support outstanding letters of credit). See Description of Other Indebtedness Amended Revolving Credit Facility.

Liquidity Assessment

In addition to our normal operating cash and working capital requirements and service of our indebtedness, we will also require cash to fund capital expenditures and enable cost reductions through restructuring projects as follows:

Capital Expenditures. We estimate our fiscal year 2007 capital expenditures will be in the range of $12.0 million to $15.0 million. Our capital expenditures primarily relate to maintenance of existing assets and equipment and technology upgrades. Management continuously evaluates opportunities to further reduce production costs, and we may incur additional capital expenditures from time to time as we pursue new opportunities for further cost reductions.

Acquisition of Dillon Yarn. On October 26, 2006, we announced that we had signed a definitive agreement to acquire the assets, including inventory, of the textured yarn business operating as the Dillon Yarn Division of Dillon Yarn Corporation. The purchase price will be approximately $65.0 million and will consist of approximately $44.5 million in cash and the issuance of approximately 8.3 million shares of our common stock. All of the shares issued as consideration in the acquisition will be subject to a lock-up agreement, which will prohibit any transfers of shares for an initial six-month period following closing. Thereafter, two-thirds of the shares may not be transferred for 18 months following closing and the remaining one-third of the shares may not be transferred until 30 months following closing. We expect to use cash-on-hand and borrowings of approximately $44.5 million under our amended revolving credit facility to fund the cash portion of the purchase price. Our availability under our amended revolving credit facility, pro forma for this transaction, will be approximately $49.0 million and we will have approximately $21.4 million of remaining cash-on-hand, consisting of approximately $11.0 million of domestic cash, utilized for on-going operating needs and $10.4 million of cash in foreign subsidiaries.

Restructuring/Cost Reductions. On April 20, 2006, we reorganized our domestic business operations, and recorded a restructuring charge for severance of approximately $0.8 million in the fourth quarter of fiscal year 2006. Approximately 45 management level salaried employees were affected by the reorganization. In connection with our acquisition strategy, we may incur additional restructuring charges, including severance payments and other related expenses.

Joint Venture Investments. We have invested $30.0 million in cash in our Chinese joint venture, YUFI, for our 50% equity interest which we paid using the proceeds of capital asset sales relating to the closure of our European manufacturing operations. We may from time to time increase our interest in our joint ventures, sell our interest in our joint ventures, invest in new joint ventures or transfer idle equipment to our joint ventures.

Our ability to meet our debt service obligations and reduce our total debt will depend upon our ability to generate cash in the future which, in turn, will be subject to general economic, financial, business, competitive,

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legislative, regulatory and other conditions, many of which are beyond our control. We may not be able to generate sufficient cash flow from operations and future borrowings may not be available to us under our amended revolving credit facility in an amount sufficient to enable us to repay our debt, including the notes, or to fund our other liquidity needs. If our future cash flow from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to reduce or delay our business activities and capital expenditures, sell assets, obtain additional debt or equity capital or restructure or refinance all or a portion of our debt on or before maturity. We may not be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In addition, the terms of our existing and future indebtedness, including the notes and our amended revolving credit facility, may limit our ability to pursue any of these alternatives. See Risk Factors Risks Related to The Notes and This Offering We will require a significant amount of cash to service our indebtedness, and our ability to generate cash depends on many factors beyond our control. Some risks that could adversely affect our ability to meet our debt service obligations include, but are not limited to, intense domestic and foreign competition in our industry, general domestic and international economic conditions, changes in currency exchange rates, interest and inflation rates, the financial condition or our customers and the operating performance of joint ventures, alliances and other equity investments.

Other Factors Affecting Liquidity

Stock Repurchase Program. Effective July 26, 2000, our Board of Directors increased the remaining authorization to repurchase up to 10.0 million shares of our common stock. We purchased 1.4 million shares in fiscal year 2001 for a total of $16.6 million. There were no significant stock repurchases in fiscal year 2002. Effective April 24, 2003, the Board of Directors re-instituted the stock repurchase program. Accordingly, we purchased 0.5 million shares in fiscal year 2003 and 1.3 million shares in fiscal year 2004. At June 25, 2006, we had remaining authority to repurchase approximately 6.8 million shares of our common stock under the repurchase plan. The repurchase program was suspended in November 2003, and we have no immediate plans to reinstitute the program.

Supplemental Key Employee Retirement Plan. During the first quarter of fiscal year 2007, we established the Unifi, Inc. Supplemental Key Employee Retirement Plan and as a result, recognized $1.1 million in deferred compensation charges. This plan, which replaced an existing supplemental retirement plan, was established for the purpose of providing supplemental retirement benefits for a select group of management employees. We currently do not expect to fund the Plan.

Environmental Liabilities. The land associated with the Kinston acquisition is leased under a 99 year ground lease with DuPont. Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the EPA and the North Carolina Department of Environment and Natural Resources under the Resource Conservation and Recovery Act Corrective Action Program. The Corrective Action Program requires DuPont to identify all solid waste management units or areas of concern, assess the extent of contamination at the identified areas and clean them up to applicable regulatory standards. Under the terms of the ground lease, upon completion by DuPont of required remedial action, ownership of the Kinston site will pass to us. Thereafter, we will have responsibility for future remediation requirements, if any, at the solid waste management units and areas of concern previously addressed by DuPont and at any other areas at the plant. At this time, we have no basis to determine if and when we will have any responsibility or obligation with respect to the solid waste management units and areas of concern or the extent of any potential liability for the same. Accordingly, the possibility that we could face material clean-up costs in the future relating to the Kinston facility cannot be eliminated. In addition, we are evaluating several options with respect to the upgrade of our industrial boilers at the Kinston site. The estimated investment ranges from $0 to $2.0 million. No determination has been made with respect to which alternative to pursue, if any.

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Contractual Obligations

Our significant long-term debt obligations as of June 25, 2006 were as follows:

		Cash Payments Due by Period (in thousands)			
Description of Commitment	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
The notes(1)	$ 190,000	$	$	$	$ 190,000
2008 notes(2)	1,273		1,273		
Interest on long-term debt(3)	175,704	22,554	44,795	44,598	63,757
Other long-term debt	19,028	10,766	7,148	785	329
Purchase obligations					
Nylon yarn procurement U.S.(4)	41,070	20,535	20,535		
Operating leases	9,795	3,460	6,019	316	
	$ 436,870	$ 57,315	$ 79,770	$ 45,699	$ 254,086

(1) The notes will mature in 2014. For more information on the terms of the notes, see Description of the Notes.

(2) On April 28, 2006, we commenced a tender offer for all of our then outstanding $250.0 million in aggregate principal amount of 2008 notes, simultaneously with a consent solicitation from the holders of the 2008 notes to remove substantially all of the restrictive covenants and certain events of default under the indenture governing the 2008 notes. The tender offer expired on May 25, 2006, and $248.7 million in aggregate principal amount of 2008 notes were tendered in the tender offer, representing 99.5% of the then outstanding aggregate principal amount of 2008 notes. The $1.3 million in aggregate principal amount of 2008 notes that were not tendered and purchased in the tender offer remain outstanding in accordance with their amended terms.

(3) Consists of interest on the notes, the 2008 notes and on our amended revolving credit facility and interest on other long-term debt.

(4) Our nylon segment has a supply agreement with UNF, which expires in April 2008. We are obligated to purchase certain to be agreed upon quantities of yarn production from UNF. The agreement does not provide for a fixed or minimum amount of yarn purchases, therefore there is a degree of uncertainty associated with the obligation. Accordingly, we have estimated our obligation under the agreement based on past history and internal projections.

Off Balance Sheet Arrangements

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

Recent Accounting Pronouncements

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations. This is an interpretation of SFAS No. 143, Accounting for Asset Retirement Obligations, which applies to all entities and addresses the legal obligations with the retirement of tangible long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. FIN 47 further clarifies the meaning of conditional asset retirement obligation with respect to recording the asset retirement obligation discussed in SFAS No. 143. The effective date is for fiscal years ending after December 15, 2005. During the fourth quarter of fiscal 2006, we performed a formal review of our asset retirement obligations in accordance with FIN 47. With respect to assets in which the retirement was measurable, the impact on our financial position and results of operations was immaterial. The fair value of the assets retirement obligations relating to our Kinston facility could not be reasonably estimated. See Note 19 to our audited consolidated financial statements included elsewhere in this prospectus.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, which is an interpretation of SFAS No. 109. The pronouncement creates a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will adopt FIN 48 as of the first day of fiscal year 2008, and we do not expect that the adoption of this interpretation will have a significant impact on our financial position and results of operations.

Quantitative and Qualitative Disclosure About Market Risk

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

Interest Rate Risk. We are exposed to interest rate risk through our borrowing activities, which are further described in Note 2 Long Term Debt and Other Liabilities. The majority of our 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 us at the present time.

Currency Exchange Rate Risk. We conduct our business in various foreign currencies. As a result, we are subject to the transaction exposure that arises from foreign exchange rate movements between the dates that foreign currency transactions are recorded (export sales and purchases commitments) and the dates they are consummated (cash receipts and cash disbursements in foreign currencies). We utilize some natural hedging to mitigate these transaction exposures. We also enter into foreign currency forward contracts for the purchase and sale of European and North American currencies to hedge balance sheet and income statement currency exposures. These contracts are principally entered into for the purchase of inventory and equipment and the sale of our products into export markets. Counter-parties for these instruments are major financial institutions. If the derivative is a hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings. We do not enter into derivative financial instruments for trading purposes nor are we a party to any leveraged financial instruments.

We use currency forward contracts to hedge exposure for sales in foreign currencies based on specific sales orders with customers or for anticipated sales activity for a future time period. Generally, 60-80% of the sales value of these orders is covered by forward contracts. Maturity dates of the forward contracts are intended to match anticipated receivable collections. We mark 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. We also enter into 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. Effective February 14, 2005, we entered into a contract to sell our European facility in Ireland and received a $2.8 million non-refundable deposit from the purchaser. In addition to the deposit, the contract called for a partial payment of 16.0 million Euros on June 30, 2005 and a final payment of 2.1 million Euros on September 30, 2005. On February 22, 2005, we entered into a forward exchange contract for 15.0 million Euros. We were required by the financial institution to deposit $2.8 million in an interest bearing collateral account to secure the financial institution s maximum exposure on the hedge contract. This cash deposit has been reclassified as restricted cash and is recorded on our balance sheet as a current asset. On July 15, 2005, we settled the forward exchange contract for 15.0 million Euros. Forward contracts are matched

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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 for which we are firmly committed. The maturity date for our two outstanding purchase and sales of foreign currency forward contracts are July 2006 and October 2006, respectively.

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

	June 25, 2006	June 26, 2005 (in thousands)	June 27, 2004
Foreign currency purchase contracts:			
Notional amount	$ 526	$ 168	$ 3,660
Fair value	535	159	3,642
Net (gain) loss	$ (9)	$ 9	$ 18
Foreign currency sales contracts:			
Notional amount	$ 833	$ 24,414	$ 18,833
Fair value	878	22,687	19,389
Net (gain) loss	$ 45	$ (1,727)	$ 556

The fair values of the foreign exchange forward contracts at the respective year end dates are based on discounted year end forward currency rates. The total impact of foreign currency related items that are reported on the line item other (income) expense, net in our consolidated statements of operations, including transactions that were hedged and those that were not hedged, was a pre-tax loss of $0.7 million for fiscal 2006, a pre-tax gain of $1.1 million for fiscal year 2005 and a pre-tax loss of $0.5 million for fiscal year 2004.

Inflation and Other Risks. The inflation rate in most countries we conduct business has been low in recent years and the impact on our cost structure has not been significant. We are also exposed to political risk, including changing laws and regulations governing international trade such as quotas and duties and tax laws. The degree of impact and the frequency of these events cannot be predicted.

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BUSINESS

Our Company

We are a diversified North American producer and processor of multi-filament polyester and nylon yarns, including specialty yarns with enhanced performance characteristics. We add value to the supply chain and enhance consumer demand for our products through the development and introduction of branded yarns that provide unique performance, comfort and aesthetic advantages. We manufacture partially oriented, textured, dyed, twisted and beamed polyester yarns as well as textured nylon and nylon covered spandex products. We sell our products to other yarn manufacturers, knitters and weavers that produce fabrics for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets. We maintain one of the industry s most comprehensive product offerings and emphasize quality, style and performance in all of our products. Our net sales, net loss and EBITDA were $738.8 million, $14.4 million and $47.5 million, respectively, for fiscal year 2006. See footnote 1 to Summary Historical Financial Data for the definition of EBITDA and a reconciliation of EBITDA to net loss.

The following charts illustrate the percentage of our net sales for fiscal year 2006 based on product type and end-use market:

Net Sales by Product Type

Net Sales by End-Use Market

We work across the supply chain to develop and commercialize specialty yarns that provide performance, comfort, aesthetic and other advantages that enhance demand for our products. We have branded the premium portion of our specialty value-added yarns in order to distinguish our products in the marketplace. We currently have more than 20 premium value-added yarns in our portfolio, which we commercialize under several brand names, including Sorbtek®, A.M.Y.®, Mynx® UV, Reflexx®, MicroVista®, aio® and Repreve®.

A significant number of our customers, particularly in the apparel market, produce finished goods that they seek to make eligible for duty-free treatment in the regions covered by the regional free-trade markets. When U.S.-origin POY is used to produce finished goods in these regional free-trade markets, and other origin criteria are met, then the finished goods are eligible for duty-free treatment.

We use advanced production processes to manufacture our high-quality yarns cost-effectively. We believe that our flexibility and experience in producing specialty yarns provides us with important development and commercialization advantages. We have state-of-the-art manufacturing operations in North and South America and participate in joint ventures in China, Israel and the United States.

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Business Strengths

Leading Market Positions. We are a diversified producer and processor of multi-filament polyester and nylon yarns, and we are a leading North American producer and processor of polyester POY, polyester DTY, nylon DTY, twisted yarn, nylon covered yarn and dyed yarn. We have strong positions in nearly every other market in which we participate. We believe that our position as an industry leader stems from the high quality of our products, our product innovations, the efficiency of our operations and our customer service.

Our market leading position provides us with the following competitive advantages:

- we are able to realize significant economies of scale that enhance our productivity;
- we are able to service large customers due to the size and flexibility of our manufacturing facilities, distribution system and marketing staff; and
- we are an attractive strategic partner for retailers and companies with established brands.

Significant Expertise in Value-Added Product Development and Commercialization. We are a leader in the development, manufacturing and commercialization of innovative, value-added specialty yarns with enhanced performance characteristics such as moisture management, ultraviolet protection and anti-microbial and odor control properties. In addition, we have developed a line of products that are made from recycled materials in order to appeal to environmentally conscious consumers. Due to our reputation for delivering high-quality innovative products, we have developed strong customer relationships with a number of significant downstream customers, including Wal-Mart, Dick s Sporting Goods, Russell Athletic, Reebok and the U.S. military. We also have strong relationships with the largest regional fabric producers, enabling us to market to downstream customers in collaboration with those producers. Our expertise in developing and commercializing value-added performance products combined with our strong customer relationships allows us to enhance demand for our products.

Leading Supplier in the Regional Free-Trade Markets. We are the largest of only a few producers in the regional free-trade markets of polyester POY. When U.S.-origin POY is used to produce finished goods in these regional free-trade markets, and other origin criteria are met, then the finished goods are eligible for duty-free treatment. In the first half of fiscal year 2006, approximately 40% of sales from our U.S. polyester operations (approximately 80% of our polyester sales into the apparel market) and approximately 55% of sales from our U.S. nylon operations were to customers who purchase yarn from a signatory country to the NAFTA and CAFTA agreements or a beneficiary country to the CBI or ATPA programs to receive duty-free treatment for their finished goods. We estimate that the duty-free benefit of processing textiles and apparel under the terms of these regional free-trade agreements and duties preference programs typically represents a wholesale cost advantage of up to 30% on these finished goods. Our products, when incorporated by regional supply chain partners into finished goods that are eligible for duty-free treatment, are highly competitive in a number of product categories with imports from outside the applicable regions in terms of price and quality.

High-Quality Products and Flexible, Specification-Driven Production. We believe we are widely recognized by the industry as the leading producer of high-quality specification-driven products. Our operational expertise and state-of-the-art facilities allow us to efficiently produce high-quality yarns and specialty fibers with enhanced performance characteristics customized to fulfill our customers specifications. We recently realigned our pricing by product and instituted innovative pricing terms for small lot and made-to-order purchases to better pass on the retooling and inventory costs associated with smaller and unique orders.

Diverse Customer Base in a Variety of End-Markets. Our yarns and brands are found in a variety of end products, such as apparel, hosiery, home furnishings, automotive and industrial products. We sell polyester yarns to approximately 900 customers and nylon yarns to approximately 200 customers in a variety of geographic markets. In fiscal year 2006, our nylon segment had sales of $76.4 million to Sara Lee Branded Apparel, now Hanesbrands Inc., which is our only customer in excess of 10% of our consolidated revenues.

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Experienced Management Team. Our management team has been integral in establishing our reputation for quality and innovation, developing and maintaining strong relationships with our customers, successfully integrating acquisitions and adjusting our operational infrastructure to match market conditions. Our management team has an average of nearly 18 years of experience in the industry.

Business Strategy

Focus on Manufacturing Efficiencies, Cost Reductions and Profitability. We intend to continue our focus on achieving manufacturing efficiencies, lowering costs and increasing profit margins. We have targeted several initiatives to achieve these goals, including:

- continuing to leverage our leading market positions;
- improving our product mix through increased sales of higher margin products, such as branded premium value-added yarns;
- maximizing utilization rates and matching overhead costs with operating rates in order to produce high-quality products with greater manufacturing efficiencies;
- adjusting our pricing policies and terms to customer specifications and changing market conditions; and
- efficiently integrating the facilities of newly acquired businesses.

As a result of our investment of approximately $1.3 billion in our production facilities since 1992, we do not currently anticipate that we will require any significant additional capital expenditures to replace or expand our production facilities over the next five years.

Grow our Sales of Premium Value-Added Products and Promote our Brands. We intend to leverage our expertise in product innovation, manufacturing and commercialization to continue to grow our sales of premium value-added yarns, which typically generate higher margins. We have grown our net sales of these value-added products from approximately $5.0 million in fiscal year 2001 to approximately $41.0 million in fiscal year 2006. We have branded these products to better market them to our downstream customers. In addition, we intend to increase demand for our premium value-added products by continuing to work with fabric producers and downstream customers on the development of new or improved products that meet the demands of consumers. As a result, downstream customers such as Wal-Mart, Dick s Sporting Goods, Russell Athletic, Reebok and the U.S. military have specified our products for use in their finished products.

Capitalize on Regional Free-Trade Markets. We are the largest of only a few producers in the regional free-trade markets of polyester POY. When U.S.-origin POY is used to produce finished goods in these regional free-trade markets, and other origin criteria are met, then the finished goods are eligible for duty-free treatment. We intend to continue to take advantage of our leading position in these markets to increase our market share with regional and domestic fabric producers who ship their products into the regional free-trade markets for further processing.

Expand Penetration of High-Growth Asian Markets. We intend to selectively increase our penetration of high-growth Asian markets such as China. China is currently one of the fastest growing consumers of specialty yarns, with a specialty yarn market almost as large as the entire U.S. yarn market. In addition, China currently imports approximately 30-35% of its specialty yarn needs. We have a 50/50 joint venture in China which combines our operational and marketing expertise with the customer base of a well-established, publicly-traded Chinese producer of fiber. This joint venture manufactures, processes and markets polyester filament yarn in China and provides us with an immediately accessible customer base in Asia at lower start-up costs and with fewer execution risks. Our joint venture allows us to pursue long-term, profitable revenue growth in Asia and service global brands and retailers who either produce or source from Asia.

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Selectively Pursue Strategic Acquisitions. We believe that we are well-positioned to capitalize on the consolidation occurring in the North American synthetic yarn market due to our leading market position and our track record of successfully integrating acquisitions. Most of our competitors are smaller, privately-held companies which focus on only one or two of the markets we serve. We believe there are a number of acquisition opportunities in the North American market which can increase our profitability through the elimination of excess capacity and overhead costs. Accordingly, we plan to selectively pursue additional acquisitions that offer us the potential to strengthen our market position, increase our product offerings and/or achieve cost savings. For example, in 2005, we consolidated two of four recently acquired Kinston operating lines, reducing staffing levels from approximately 800 to approximately 260 employees and making the business profitable within twelve months.

Industry Overview

The textile and apparel market consists of natural and synthetic fibers used for apparel and non-apparel applications. The industry is characterized by dependence upon a wide variety of end-markets which primarily include apparel, home textiles, industrial and consumer products, floor coverings, fiber fill and tires. The apparel and hosiery markets account for 25% of total production, the floor covering market accounts for 32%, the industrial and consumer markets account for 20%, the home textiles market accounts for 13% and other end-uses account for 10%.

According to independent industry sources, the size of the global polyester textile filament market in calendar 2005 was estimated to be 29.5 billion pounds. The North American share of production within this global market was 2%. United States consumption of polyester textured yarn in 2005 was approximately 500 million pounds. Imports from foreign producers accounted for 21% of this textured yarn consumption.

Textiles and apparel goods are made from natural fiber filament, such as cotton and wool, or synthetic fiber filament, such as polyester and nylon. Since 1980, global demand for polyester has grown steadily, and in 2003, polyester replaced cotton as the fiber with the largest percentage of sales worldwide. In 2005, polyester accounted for an estimated 40% of global fiber filament consumption and demand is projected to increase by 6% to 7% annually through 2009. The synthetic fiber sector accounts for approximately 55% of the U.S. textile and apparel market.

The synthetic filament industry includes petrochemical and raw material producers, fiber and yarn manufacturers (like Unifi), fabric and product producers, retailers and consumers. The following chart illustrates the supply chain in the synthetic filament industry:

Among synthetic filament yarn producers, pricing is highly competitive, with innovation, product quality and customer service being essential for differentiating the competitors within the industry. Both product innovation and product quality are particularly important, as product innovation gives customers competitive advantages and product quality provides for improved manufacturing efficiencies.

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The North American synthetic yarn market has contracted since 1999, primarily as a result of intense foreign competition in finished goods on the basis of price. In addition, due to consumer preferences, demand for sheer hosiery products has declined in recent years, which negatively impacts nylon manufacturers. Despite this decline, U.S. retailers and other end-users have consistently expressed their need for a balanced procurement strategy with both global and regional production to satisfy their need for readily available production capacity, quick response times, specialized products, product changes based on customer feedback and more customized orders. As a result, the contraction in the U.S. synthetic yarn market continues, although we expect a lower rate of decline in the future as regional manufacturers continue to demand U.S. manufactured synthetic yarn. There has also been growing emphasis domestically towards premium value-added yarns as consumers, retailers and manufacturers demand products with enhanced performance characteristics. This emphasis on incorporating specialty synthetic yarn in finished goods has greatly increased domestic demand for value-added synthetic fibers.

The U.S. government has attempted to regulate the growth of certain textile and apparel imports by establishing quotas and duties on imports from countries that historically account for significant shares of U.S. imports. Under the January 1995 Agreement on Textiles and Clothing, the WTO began implementing a phased-in elimination of import quotas and a reduction of duties among its members, which culminated with the elimination of all remaining quotas for all members of WTO on January 1, 2005. After extensive negotiations, the United States and China entered into a bilateral agreement in November 2005, reinstating quotas on a number of categories of Chinese textile and apparel products. These quotas under this agreement will end on December 31, 2008. Nevertheless, duties on imported textile and apparel products, including textile and apparel products from China, remain in effect. We believe that duties are a more effective method than quotas in providing protection for the U.S. textile and apparel industry.

In the Americas region, regional free-trade agreements, such as NAFTA and CAFTA, and U.S. unilateral duties preference programs, such as ATPA and CBI, have a significant impact on the flow of goods among the region and the relative costs of production. The cost advantages offered by these regional free-trade agreements and duties preference programs on finished goods which incorporate U.S.-origin synthetic fiber and the desire for quick inventory turns have enabled regional synthetic yarn producers to effectively compete with imported finished goods from lower wage-based countries. We estimate that the duty-free benefit of processing synthetic textiles and apparel finished goods under the terms of these regional free-trade agreements and duties preference programs typically represents a wholesale cost advantage of up to 30% on these finished goods. As a result of such cost advantages, it is expected that these regions will continue to grow in their supply of textiles to the United States.

Products

We manufacture polyester POY and synthetic polyester and nylon yarns for a wide range of end-uses. We process and sell both high-volume and specialty yarns, domestically and internationally.

Polyester POY is used to make polyester yarn. Our polyester yarn products include textured, dyed, twisted and beamed yarns. We sell our polyester yarns to other yarn manufacturers, knitters and weavers that produce fabrics for the apparel, automotive and furniture upholstery, home furnishings, industrial, military, medical and other end-use markets. Our nylon products include textured nylon and covered spandex products, which we sell to other yarn manufacturers, knitters and weavers that produce fabrics for the apparel, hosiery, sock and other end-use markets.

In addition to producing high-volume yarns, we develop, manufacture and commercialize specialty yarns that provide performance, comfort, aesthetic and other advantages. For example, we have developed a line of products that are made from recycled materials in order to appeal to environmentally conscious consumers. We have branded the premium portion of our specialty value-added yarns in order to distinguish our products in the marketplace. We currently have more than 20 premium value-added yarn products in our portfolio. Such branded yarn products include:

- Sorbtek®, a permanent moisture management yarn primarily used in performance base layer applications, compression apparel, athletic bras, sports apparel, socks and other non-apparel related items;
- A.M.Y.®, a yarn with permanent antimicrobial and odor control;
- Mynx®UV, an ultraviolet protective yarn;
- Reflexx®, a family of stretch yarns, that can be found in a wide array of end-use applications from home furnishings to performance wear and from hosiery and socks to workwear and denim;
- MicroVista®, a family of microfiber yarns;
- aio® all-in-one performance yarns, which combine multiple performance properties into a single yarn; and
- Repreve®, an eco-friendly yarn made from 100% recycled materials.

Sales and Marketing

We employed a sales force of approximately 30 persons as of June 25, 2006 operating out of sales offices in the United States, Brazil and Colombia. We rely on independent sales agents for sales in several other countries.

We seek to create strong customer relationships and continually seek ways to build and strengthen those relationships throughout the supply chain. Through frequent communications with customers, partnering with customers in product development and engaging key downstream retailers, we have created significant pull-through sales and brand recognition for our products. For example, based on an analysis of a retailer s product offerings, we develop proposals for a garment that fits within a brand or retailer s product line, using our premium value-added products to give the item special qualities, such as moisture wicking capability or anti-microbial properties. Together with our selected supply chain partner, we then make proposals to the retailer, who can modify the proposed product to suit its requirements. If the retailer decides to produce and market the item, we and our supply chain partner will be positioned to provide the necessary fabric. Examples of the success of this strategy include:

- Sorbtek®, which is used in many well-known apparel brands and retailers, including Wal-Mart, Reebok, the U.S. military, Dick s Sporting Goods, Duofold, Hind and Icy Hot. Today Sorbtek® can be found in over 2,500 Wal-Mart stores under the Athletic Works brand;
- A.M.Y.®, which can be found in many apparel brands, including Marmot, Eastern Mountain Sports, the U.S. military, Everlast, Duofold, Jerzees Socks and Russell Athletics;
- Mynx® UV, which can be found in Asics Running Apparel and Terry Cycling; and

Reflexx®, which can be found in major brands, including VF Corporation s Wrangler and Red Kap, Dockers and Majestic Athletic (a maker of uniforms for several major league baseball teams, including the New York Yankees).

Customers

We sell our products to other yarn manufacturers, knitters and weavers that produce fabrics for the apparel, hosiery, sock, automotive upholstery, furniture upholstery, home furnishings, industrial, military, medical and other end-use markets. We sell our polyester yarns to approximately 900 customers and our nylon yarns to approximately 200 customers in a variety of geographic markets. In fiscal year 2006, our nylon segment had sales to Sara Lee Branded Apparel, now Hanesbrands Inc., of $76.4 million, which were in excess of 10% of our consolidated revenues. The loss of this customer would have a material adverse effect on our nylon segment.

We generally sell our products on an order-by-order basis for both the polyester and nylon segments, even for our premium value-added yarn with enhanced performance characteristics. For substantially all customer orders, including those involving more customized yarns, we manufacture and ship yarn in accordance with firm orders received from customers specifying yarn type and delivery dates. We do not currently provide raw yarn consignment arrangement to any customers.

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

Manufacturing

Polyester POY is made from petroleum-based chemicals such as TPA and MEG. The production of polyester POY consists of two primary processes, polymerization (performed at our Kinston facility) and spinning (performed at our Yadkinville and Kinston facilities). The polymerization process is the production of polymer by a chemical reaction involving TPA and MEG, which are combined to form chip. The spinning process involves the extrusion of molten polymer, directly from polymerization or using chip, into polyester POY. The molten polymer is extruded through spinnerettes to form continuous multi-filament raw yarn.

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

Package dyeing allows us to match customer specific color requirements for yarns sold into the automotive, home furnishings and apparel markets. Twisting incorporates real twist into the filament yarns, which can be sold for such uses as sewing thread, home furnishings and apparel. Beaming places both textured and covered yarns on beams to be used by customers in knitting and weaving applications. Warp drawing converts polyester POY into flat yarn, also packaged on beams.

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

We work closely with our customers to develop premium value-added yarns that reflect current consumer preferences.

Suppliers

The primary raw material suppliers for our polyester segment are Nan Ya for chip, DAK Americas LLC for TPA and DuPont for MEG. The primary suppliers of nylon POY to our nylon segment are UNF, Invista

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S.a.r.l, Sara Lee Nilit Fibers, Ltd. and Universal Premier Fibers, LLC (formerly known as Cookson Fibers, Inc.). UNF is our 50/50 joint venture with Nilit Ltd., located in Israel. The joint venture produces nylon POY at Nilit s manufacturing facility in Migdal Ha Emek, Israel. The nylon POY production is being utilized in our domestic nylon texturing operations. We have entered into long-term supply agreements with each of Nan Ya, DAK, DuPont and UNF. Our agreement with Nan Ya will expire in October 2007 and may otherwise be terminated earlier upon six months prior notice. Our agreements with DAK can be terminated upon two years prior notice. Our agreement with DuPont will terminate on June 30, 2007 and our agreement with UNF will terminate in April 2008. Our supply agreements typically provide for formula-driven pricing. Although we do not generally expect having any significant difficulty in obtaining nylon POY or chemical and other raw materials used to manufacture polyester POY, we have in the past and may in the future experience interruptions or limitations in supply which could materially affect us. See Risk Factors Risks Related to Our Business We depend upon limited sources for raw materials, and interruptions in supply could increase our costs of production and cause our operations to suffer.

Joint Ventures and Other Equity Investments

We participate in joint ventures in China, Israel and the United States. See Management s Discussion and Analysis of Financial Condition and Results of Operation Joint Ventures and Other Equity Investments for a more detailed description of our joint ventures.

Competition

The industry in which we currently operate is highly competitive. We process and sell both high-volume commodity products and more specialized yarns both domestically and internationally into many end-use markets, including the apparel, automotive upholstery and home furnishing markets. We compete with a number of other foreign and domestic producers of polyester and nylon yarns as well as with imports of textile and apparel products.

Our major regional competitors in the polyester yarn segment are Nan Ya, Dillon, O Mara, Inc., Spectrum, KOSA and AKRA, S.A. de C.V. Our major regional competitors in the nylon yarn segment are Sapona Manufacturing Company, Inc., McMichael Mills, Inc. and Worldtex, Inc.

We also compete against a number of foreign competitors that not only sell polyester and nylon yarns in the United States but also import foreign sourced fabric and apparel into the United States and other countries in which we do business, which adversely impacts the sale of our polyester and nylon yarns.

According to independent industry sources, the size of the global polyester textile filament market in calendar 2005 was estimated to be 29.5 billion pounds. The North American share of production within this global market was 2%. United States consumption of polyester textured yarn in 2005 was approximately 500 million pounds. Imports from foreign producers accounted for 21% of this textured yarn consumption.

Imports of all textile and apparel products represented approximately 70% of final consumer consumption in North America.

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

On a global basis, we compete not only as a yarn producer but also as part of a supply chain. As one of the many participants in the textile industry supply chain, our business and competitive position are directly impacted by the business and financial condition and competitive position of the several other participants in the supply chain in which we operate.

In the apparel market, a significant source of overseas competition comes from textile and apparel manufacturers that operate in lower labor and lower raw materials cost countries such as China. The primary competitive factors in the textile industry include price, quality, product styling and differentiation, flexibility of production and finishing, delivery time and customer service. The needs of particular customers and the characteristics of particular products determine the relative importance of these various factors. Several of our foreign competitors have significant competitive advantages over us, including lower wages, lower raw materials and energy costs and favorable currency exchange rates against the U.S. dollar, which could make our products less competitive and may cause our sales and profits to decrease. In addition, while traditionally these foreign competitors have focused on commodity production, they are now increasingly focused on premium value-added products where we continue to generate higher margins. In recent years, international imports of fabric and finished goods in the United States have significantly increased, resulting in a significant reduction in our customer base. The primary drivers for that growth are the reduction in equipment costs which have reduced barriers to entry in the market, the currency devaluation of Asian currencies following the Asian financial crisis, the entry of China into the free-trade markets and the staged elimination of all textile and apparel quotas. In May 2005, the U.S. government imposed safeguard quotas on various categories of Chinese-made products, citing market disruption. Following extensive negotiations, the United States and China entered into a bilateral agreement in November 2005 resulting in the imposition of annually decreasing quotas on a number of categories of Chinese textile and apparel products until December 31, 2008. We expect competitive pressures to intensify as a result of the gradual elimination of trade protections. See Trade Regulation.

The U.S. automotive upholstery market has been less susceptible to import penetration because of the exacting specifications and quality requirements often imposed on manufacturers of automotive upholstery and the often short time frame for deliveries. Effective customer service and prompt response to customer feedback are logistically more difficult for an importer to provide. Nevertheless, to the extent the U.S. automotive industry itself faces competition from imports, the U.S. automotive upholstery industry is also affected by imports.

The nylon hosiery market has been experiencing a decline in recent years due to changing consumer preferences, but is expected to decline at a much lower rate compared to previous years. We supply the largest domestic ladies hosiery producer, Sara Lee Branded Apparel, now Hanesbrands Inc.

General economic conditions, such as raw material prices, interest rates, currency exchange rates and inflation rates that exist in different countries have a significant impact on our competitiveness, as do various country-to-country trade agreements and restrictions.

We believe that the continuing development and marketing of new and improved products, the growing need for quick response, speed to market, quick inventory turns and cost of capital will continue to require a sizable portion of the textile industry to remain based in North America. Our success will continue to be primarily based on our ability to improve the mix of product offerings to more premium value-added products, to implement cost saving strategies and to pass along raw material price increases, which will improve our financial results, and to strategically penetrate growth markets such as China.

See Risk Factors Risks Related to Our Business We face intense competition from a number of domestic and foreign yarn producers and importers of textile and apparel products.

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Backlog and Seasonality

We generally sell our products on an order-by-order basis for both the polyester and nylon reporting segments, even for our premium value-added yarns. Changes in economic indicators and consumer confidence levels can have a significant impact on retail sales. Deviations between expected sales and actual consumer demand result in significant adjustments to desired inventory levels and, in turn, replenishment orders placed with suppliers. This changing demand ultimately works its way through the supply chain and impacts us. As a result, we do not track unfilled orders for purposes of determining backlog but rather to routinely reconfirm or update the status of potential orders. Consequently, backlog is generally not applicable to us, and we do not consider our products to be seasonal.

Intellectual Property

We have a limited number of patents and approximately 26 U.S. registered trademarks, 1 trademark application and several foreign trademark registrations, none of which is material to any of our reporting segments or our business taken as a whole. We license certain of our trademarks, including Dacron® and softec from Invista.

Employees

We employed approximately 3,300 employees as of June 25, 2006, of which approximately 3,275 are full-time and approximately 25 are part-time employees. Approximately 2,500 employees are employed in the polyester segment, approximately 700 employees are employed in the nylon segment and approximately 100 employees are employed in our corporate segment or other division. While employees of our foreign operations are generally unionized, none of our domestic employees are currently covered by collective bargaining agreements. We believe that our relations with our employees are good.

Properties

Following is a summary of the principal properties owned or leased by us as of June 25, 2006:

Location	Description	Size (ft.)	Lease/Own
Corporate Office Headquarters			
Greensboro, NC	One corporate office	98,700	Owned
Polyester Business Properties:			
Yadkinville, NC	Five plants and three warehouses	2,879,000	Owned
Kinston, NC	One plant and one warehouse	1,340,000	Owned(1)
Reidsville, NC	One plant	464,000	Owned
Mayodan, NC	One plant	232,000	Leased (exp. January 1, 2013)(2)
Staunton, VA	One plant and one warehouse(3)	168,000	Owned
	One warehouse	250,000	Leased (exp. May 25, 2007)(4)
Alfenas, Brazil	One plant and one warehouse	277,000	Owned
Sao Paulo, Brazil	One corporate office		Leased (exp. May 31, 2008)
Nylon Business Properties:			
Madison, NC	One plant(5)	947,000	Owned
Fort Payne, AL	One central distribution center	40,000	Owned
Bogota, Colombia	One plant	50,000	Owned

(1) We own the building and equipment and lease the warehouse. We have a 99-year lease on the land from DuPont. The land will be purchased for $1 at the completion of DuPont s environmental remediation work on the site. See Environmental Matters.
(2) Leased from Nationsbanc Leasing & R.E. Corporation under sale leaseback agreement dated May 20, 1997.
(3) We sold an idle manufacturing facility in Staunton, Virginia in May 2006.
(4) Leased from Morris Mill Rd Plant, LLC under sale leaseback agreement dated May 25, 2006.
(5) We sold a central distribution center in Madison, North Carolina in May 2006.

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Our corporate administrative offices are located at 7201 West Friendly Ave. in Greensboro, North Carolina. Such property consists of a building of approximately 100,000 square feet located on a tract of land of approximately 9 acres. This property was purchased at fair market value from the Unifi, Inc. Retirement Savings Plan which we refer to as the Plan, in August 2002, prior to which, we leased this property from the Plan.

We also lease sales offices in the United States, Brazil and Colombia.

We believe all our properties are well maintained and in good condition. In fiscal year 2006, our manufacturing plants in the United States and South America operated below capacity. Accordingly, we do not perceive any capacity constraints in the foreseeable future.

We also lease two manufacturing facilities to other manufacturers, one of which is USTF, a joint venture in which we are a 50% owner.

Trade Regulation

Increases in capacity and imports of foreign-made textile and apparel products are a significant source of competition for us. The U.S. government attempts to regulate the growth of certain textile and apparel imports by establishing quotas and duties on imports from countries that historically account for significant shares of U.S. imports. Although imported apparel represents a significant portion of the U.S. apparel market, in recent years, a significant portion of import growth has been attributable to imports of apparel products manufactured outside the United States of (or using) domestic textile components. In addition, imports of certain textile products into the United States have increased in recent years as a result of significant depreciation of the currencies of other textile producing countries, particularly within Asia, against the U.S. dollar, and perhaps as a result of unfair trade practices.

The extent of import protection afforded by the U.S. government to domestic textile producers has been, and is likely to remain, subject to considerable domestic political deliberation and foreign considerations. In January 1995, a multilateral trade organization, the WTO, was formed by the members of the General Agreement on Tariffs and Trade, or GATT, to replace GATT. The WTO has set forth the mechanisms by which world trade in textiles and clothing will be progressively liberalized through the elimination of quotas and the reduction of duties. The implementation began in January 1995 with the phasing-out of quotas and the gradual reduction of duties to take place over a 10-year period. All textile and apparel quotas expired on January 1, 2005. In May 2005, however, the U.S. government imposed safeguard quotas on various categories of Chinese-made products, citing market disruption. Following extensive negotiations, the United States and China entered into a bilateral agreement in November 2005 resulting in the imposition of annually increasing quotas on a number of categories of Chinese textile and apparel products that will remain in effect until December 31, 2008.

NAFTA, which is a free trade agreement between the United States, Canada and Mexico that became effective on January 1, 1994, has created the world s largest free-trade area. The agreement contains safeguards sought by the U.S. textile industry, including certain rules of origin for textile and apparel products that must be met for these products to receive benefits under NAFTA. Under these rules of origin, to receive NAFTA benefits, the textile and apparel products must be produced from yarn or fabric made in the NAFTA region, and all subsequent processing must occur in the NAFTA region. Thus, in general, not only must eligible apparel be made from North American fabric, but the fabric must be woven from North American spun yarn. Based on experience to date, NAFTA has had a favorable impact on our business.

In 2000, the United States passed the United States-Caribbean Basin Trade Partnership Act, which was amended by the Trade Act of 2002, and allows apparel products manufactured in the Caribbean region using yarns or fabrics produced in the United States to be imported into the United States duty and quota free. Also in 2000, the United States passed the African Growth and Opportunity Act, which was amended by the Trade Act of

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2002, and allows apparel products manufactured in the sub-Saharan African region using yarns or fabrics produced in the United States to be imported to the United States duty and quota free.

On August 2, 2005, the United States passed CAFTA, which is a free trade agreement between seven signatory countries: the United States, the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Qualifying textile and apparel products that are produced in any of the seven signatory countries from fabric, yarn or fibers that are also produced in any of the seven signatory countries may be imported into the United States duty-free.

The Andean Trade Promotion and Drug Eradication Act was passed on August 6, 2002 to renew and enhance the ATPA. Under the enhanced ATPA, apparel manufactured in Bolivia, Colombia, Ecuador and Peru using yarns and fabrics produced in the United States, or in these four Andean countries, may be imported into the United States duty and quota free through December 31, 2006. This legislation effectively granted these four countries the favorable trade terms afforded Mexico and the Caribbean region. A free trade agreement was recently completed with Peru and Colombia which follows, for the most part, the same yarn forward rules of origin as the ATPA. These agreements require congressional action which is expected by early 2007.

The Deficit Reduction Act of 2005, which was signed into law on February 8, 2006, contains statutory changes to the Step 2 cotton program and export credit guarantee programs to comply with parts of a WTO ruling against U.S. cotton subsidies. The legislative changes eliminate the Step 2 program, which provides for payments to U.S. cotton and textile producers. The measure, part of an agriculture budget reconciliation process, does away with the subsidy program as of August 1, 2006. PAL will no longer receive payments under the Step 2 program after August 2006. Measures such as additional quotas for foreign cotton are under discussion to help ease the transition.

Environmental Matters

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

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

We believe that the operation of our production facilities and the disposal of waste materials are substantially in compliance with applicable federal, state and local laws and regulations and that there are no material ongoing or anticipated capital expenditures associated with environmental control facilities necessary to remain in compliance with such provisions. However, we are evaluating several options with respect to the upgrade of its industrial boilers at the Kinston site. The estimated investment ranges from $0 to $2.0 million. No determination has been made with respect to which alternative to pursue, if any. We incur normal operating costs associated with the discharge of materials into the environment but we do not believe that these costs are material or inconsistent with other domestic competitors.

The land associated with the Kinston site is leased under a 99 year ground lease with DuPont. Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the EPA and the North

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Carolina Department of Environment and Natural Resources under the Resource Conservation and Recovery Act Corrective Action Program. The Corrective Action Program requires DuPont to identify all potential areas of environmental concern, known as solid waste management units or areas of concern, assess the extent of contamination at the identified areas and clean them up to applicable regulatory standards. Under the terms of the ground lease, upon completion by DuPont of required remedial action, ownership of the Kinston site will pass to us. Thereafter, we will have responsibility for future remediation requirements, if any, at the solid waste management units and areas of concern previously addressed by DuPont and at any other areas at the plant. At this time we have no basis to determine if and when we will have any responsibility or obligation with respect to the solid waste management units and areas of concern or the extent of any potential liability for the same. Accordingly, the possibility that we could face material clean-up costs in the future relating to the Kinston facility cannot be eliminated.

Legal Proceedings

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

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MANAGEMENT

Information required under this section is set forth in our Proxy Statement under the headings Directors Compensation, Compensation Committee Interlocks and Insider Participation in Compensation Decisions, Executive Officers and their Compensation and Employment and Termination Agreements and such information is incorporated by reference in this prospectus.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required under this section is set forth in our Proxy Statement under the headings Information Relating to Principal Security Holders and Beneficial Ownership of Common Stock by Directors and Executive Officers, and such information is incorporated by reference in this prospectus.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Information required under this section is set forth in our Proxy Statement under the heading Insider Transactions, and such information is incorporated by reference in this prospectus.

DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of certain provisions of the instruments evidencing our material indebtedness (other than the notes) that are outstanding does not purport to be complete and is subject to, and qualified in its entirety by reference to, all of the provisions of the corresponding agreements, including the definitions of certain terms in such agreements that are not otherwise defined in this prospectus.

Amended Revolving Credit Facility

On May 26, 2006, we amended and restated our old revolving credit facility with Bank of America, N.A., or BoA, as lender. Our amended revolving credit facility provides for a revolving credit facility in an amount of $100.0 million (with the ability of Unifi to request that the borrowing capacity be increased up to $150.0 million under certain circumstances) and matures on May 15, 2011.

The following is a summary of the principal terms of the amended revolving credit facility.

Structure

The amended revolving credit facility consists of a revolving borrowing base loan of up to $100.0 million, with the ability of Unifi to request that the borrowing capacity be increased up to $150.0 million under certain circumstances. We currently do not have commitments for the additional $50.0 million of availability. Availability under the amended revolving credit facility is based on the sum of:

(a) 90% of eligible accounts receivable due from factors; plus

(b) 85% of eligible domestic and Canadian accounts receivable; plus

(c) 80% of eligible foreign accounts receivable up to a maximum amount of $10.0 million; plus

(d) the lesser of:

  (i) 65% of total eligible inventory; or

  (ii) 85% of net orderly liquidation value (as defined) of total eligible inventory.

Availability under the amended revolving credit facility may be further reduced under certain circumstances, including the setting of such reserves as BoA establishes in its reasonable credit judgment. Customary conditions precedent must be satisfied prior to the funding of any loan, including a condition precedent to the funding of the initial loans that we have a minimum availability of at least $35.0 million.

As of June 25, 2006, there were no amounts outstanding under our amended revolving credit facility, and based on our calculation as of that date, $94.2 million was available for borrowing under the borrowing base of this facility (net of approximately $5.8 million to support outstanding letters of credit).

Interest and Fees

Borrowings under the amended revolving credit facility bear interest at rates selected periodically by us of LIBOR plus 1.50% to 2.25% and/or prime plus 0.00% to 0.50%. The interest rate matrix is based on our excess availability under the amended revolving credit facility. The amended revolving credit facility also includes a 0.25% LIBOR margin pricing reduction if our fixed charge coverage ratio is greater than 1.5 to 1.0.

We agreed to pay certain fees and expenses and to provide certain indemnities, all of which were customary for such financings. We also agreed to pay an unused line fee at the beginning of each month equal to the amount by which the Maximum Revolver Amount (as defined in the amended revolving credit facility) exceeds the sum of the average daily outstanding amount of revolving loans and the average daily undrawn face amount of outstanding letters of credit.

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Term

The amended revolving credit facility has an initial term of five years, terminating on May 15, 2011.

Security and Guarantees

The borrowings under the amended revolving credit facility are collateralized by first-priority liens, subject to permitted liens, on substantially all of our and our subsidiary guarantors inventory, accounts receivable, general intangibles (other than uncertificated capital stock of subsidiaries and other persons), investment property (other than capital stock of subsidiaries and other persons), chattel paper, documents, instruments, supporting obligations, letter of credit rights, deposit accounts and other related personal property and all proceeds relating to the above, other than certain excluded assets. The borrowings under the amended revolving credit facility are collateralized by second-priority liens, subject to permitted liens, on our and our subsidiary guarantors assets that secure the notes and guarantees on a first-priority basis. Guarantors of the notes also act as co-borrowers under the amended revolving credit facility.

Covenants

The amended revolving credit facility contains affirmative and negative customary covenants for asset based loans that restrict future borrowings and capital spending. The covenants under the amended revolving credit facility are more restrictive than those in the indenture. The covenants include, without limitation, restrictions and limitations on:

- sales of assets,
- consolidation, merger, dissolution of us or any subsidiary guarantor and any domestic subsidiary,
- the issuance of our capital stock and that of our subsidiaries,
- encumbrances on our property and that of any subsidiary guarantor and any domestic subsidiary,
- the incurrence of indebtedness by us, any subsidiary guarantor or any domestic subsidiary,
- the making of loans or investments by us, any subsidiary guarantor or any domestic subsidiary,
- the declaration of dividends and redemptions by us or any subsidiary guarantor,
- transactions with affiliates by us or any subsidiary guarantor, and
- the repurchase by us of the notes.

Under the amended revolving credit facility, if borrowing capacity is less than $25.0 million at any time during the quarter, covenants also include a required minimum fixed charge coverage ratio of 1.1 to 1.0. In addition, maximum capital expenditures are limited to $30.0 million per fiscal year (subject to pro forma availability greater than $25.0 million) with a 75% one-year unused carry forward. The amended revolving credit facility also permits us to make distributions, subject to standard criteria, as long as pro forma excess availability is greater than $25.0 million both before and after giving effect to such distributions, subject to certain exceptions. Under the amended revolving credit facility, acquisitions by us are subject to pro forma covenant compliance. In addition, under the amended revolving credit facility, receivables are subject to cash dominion if excess availability is below $25.0 million.

Events of Default

The amended revolving credit facility contains events of default customary for such financings, including, but not limited to, nonpayment of principal, interest, fees or other amounts when due; violation of covenants;

failure of any representation or warranty to be true in all material respects when made or deemed made; cross default; change in control; bankruptcy events; material judgments; assignments made for the benefit of creditors; and actual asserted invalidity of the loan documents. Such events of default allow for certain grace periods and materiality concepts.

Letter of Credit Facility

The amended revolving credit facility includes a letters of credit facility arranged through, or back stopped by, BoA, of up to an aggregate amount at any time outstanding of $20.0 million. Certain reserves against the revolving loan availability are required in connection with the letters of credit.

2008 Notes

The 2008 notes mature on February 1, 2008 and bear interest at the rate of 6 1/2%.

On April 28, 2006, we commenced a tender offer for the 2008 notes in which $248.7 million of 2008 notes, representing 99.5% of the then outstanding aggregate principal amount of 2008 notes, were tendered and purchased at a purchase price of 100.0% of their principal amount plus accrued but unpaid interest to, but not including, May 26, 2006. The $1.3 million in aggregate principal amount of 2008 notes that were not tendered in the tender offer remain outstanding in accordance with their amended terms. See Prospectus Summary The Refinancing Transactions Tender Offer for 2008 Notes.

Indebtedness of Unifi do Brasil

Our subsidiary, Unifi do Brasil, receives loans from the government of the State of Minas Gerais to finance 70% of the value added taxes due by Unifi do Brasil to the State of Minas Gerais. These loans were granted as part of a 24 month tax incentive to build a manufacturing facility in the State of Minas Gerais. The loans have a 2.5% origination fee and bear an effective interest rate equal to 50% of the Brazilian inflation rate, which currently is significantly lower than the Brazilian prime interest rate. The loans are collateralized by a performance bond letter issued by a Brazilian bank, which secures the performance by Unifi do Brasil of its obligations under the loans. In return for this performance bond letter, Unifi do Brasil makes certain cash deposits with the Brazilian bank. The deposits made by Unifi do Brasil earn interest at a rate equal to approximately 100% of the Brazilian prime interest rate. These tax incentives will end in September 2008.

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THE EXCHANGE OFFER

Terms of the Exchange Offer

We are offering to exchange our exchange notes for a like aggregate principal amount of our initial notes.

The exchange notes that we propose to issue in this exchange offer will be substantially identical to our initial notes except that, unlike our initial notes, the exchange notes will have no transfer restrictions or registration rights. You should read the description of the exchange notes in the section in this prospectus entitled Description of the Notes.

We reserve the right in our sole discretion to purchase or make offers for any initial notes that remain outstanding following the expiration or termination of this exchange offer and, to the extent permitted by applicable law, to purchase initial notes in the open market or privately negotiated transactions, one or more additional tender or exchange offers or otherwise. The terms and prices of these purchases or offers could differ significantly from the terms of this exchange offer.

Expiration Date; Extensions; Amendments; Termination

This exchange offer will expire at 5:00 p.m., New York City time, on , 2006, unless we extend it in our reasonable discretion. The expiration date of this exchange offer will be at least 20 business days after the commencement of the exchange offer in accordance with Rule 14e-1(a) under the Exchange Act.

We expressly reserve the right to delay acceptance of any initial notes, extend or terminate this exchange offer and not accept any initial notes that we have not previously accepted if any of the conditions described below under Conditions to the Exchange Offer have not been satisfied or waived by us. We will notify the exchange agent of any extension by oral notice promptly confirmed in writing or by written notice. We will also notify the holders of the initial notes by a press release or other public announcement communicated before 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date unless applicable laws require us to do otherwise.

We also expressly reserve the right to amend the terms of this exchange offer in any manner. If we make any material change, we will promptly disclose this change in a manner reasonably calculated to inform the holders of our initial notes of the change including providing public announcement or giving oral or written notice to these holders. A material change in the terms of this exchange offer could include a change in the timing of the exchange offer, a change in the exchange agent and other similar changes in the terms of this exchange offer. If we make any material change to this exchange offer, we will disclose this change by means of a post-effective amendment to the registration statement which includes this prospectus and will distribute an amended or supplemented prospectus to each registered holder of initial notes. In addition, we will extend this exchange offer for an additional five to ten business days as required by the Exchange Act, depending on the significance of the amendment, if the exchange offer would otherwise expire during that period. We will promptly notify the exchange agent by oral notice, promptly confirmed in writing, or written notice of any delay in acceptance, extension, termination or amendment of this exchange offer.

Procedures for Tendering Initial Notes

Proper Execution and Delivery of Letters of Transmittal

To tender your initial notes in this exchange offer, you must use one of the three alternative procedures described below:

(1) *Regular delivery procedure*: Complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal. Have the signatures on the letter of transmittal guaranteed if required by the letter of transmittal.

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Mail or otherwise deliver the letter of transmittal or the facsimile together with the certificates representing the initial notes being tendered and any other required documents to the exchange agent on or before 5:00 p.m., New York City time, on the expiration date.

(2) *Book-entry delivery procedure*: Send a timely confirmation of a book-entry transfer of your initial notes, if this procedure is available, into the exchange agent s account at The Depository Trust Company in accordance with the procedures for book-entry transfer described under Book-Entry Delivery Procedure below, on or before 5:00 p.m., New York City time, on the expiration date.

(3) *Guaranteed delivery procedure*: If time will not permit you to complete your tender by using the procedures described in (1) or (2) above before the expiration date and this procedure is available, comply with the guaranteed delivery procedures described under Guaranteed Delivery Procedure below.

The method of delivery of the initial notes, the letter of transmittal and all other required documents is at your election and risk. Instead of delivery by mail, we recommend that you use an overnight or hand-delivery service. If you choose the mail, we recommend that you use registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. You should not send any letters of transmittal or initial notes to us. You must deliver all documents to the exchange agent at its address provided below. You may also request your broker, dealer, commercial bank, trust company or nominee to tender your initial notes on your behalf.

Only a holder of initial notes may tender initial notes in this exchange offer. A holder is any person in whose name initial notes are registered on our books or any other person who has obtained a properly completed bond power from the registered holder.

If you are the beneficial owner of initial notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your notes, you must contact that registered holder promptly and instruct that registered holder to tender your notes on your behalf. If you wish to tender your initial notes on your own behalf, you must, before completing and executing the letter of transmittal and delivering your initial notes, either make appropriate arrangements to register the ownership of these notes in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.

You must have any signatures on a letter of transmittal or a notice of withdrawal guaranteed by:

(1) a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc.,

(2) a commercial bank or trust company having an office or correspondent in the United States, or

(3) an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act, unless the initial notes are tendered:

(1) by a registered holder or by a participant in The Depository Trust Company (DTC) whose name appears on a security position listing as the owner, who has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal and only if the exchange notes are being issued directly to this registered holder or deposited into this participant s account at The Depository Trust Company, or

(2) for the account of a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States or an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act.

If the letter of transmittal or any bond powers are signed by:

(1) the recordholder(s) of the initial notes tendered: the signature must correspond with the name(s) written on the face of the initial notes without alteration, enlargement or any change whatsoever.

(2) a participant in DTC: the signature must correspond with the name as it appears on the security position listing as the holder of the initial notes.

(3) a person other than the registered holder of any initial notes: these initial notes must be endorsed or accompanied by bond powers and a proxy that authorize this person to tender the initial notes on behalf of the registered holder, in satisfactory form to us as determined in our sole discretion, in each case, as the name of the registered holder or holders appears on the initial notes.

(4) trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity: these persons should so indicate when signing. Unless waived by us, evidence satisfactory to us of their authority to so act must also be submitted with the letter of transmittal.

To tender your initial notes in this exchange offer, you must make the following representations:

(1) you are authorized to tender, sell, assign and transfer the initial notes tendered and to acquire exchange notes issuable upon the exchange of such tendered initial notes, and we will acquire good and unencumbered title thereto, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim when the same are accepted by us,

(2) any exchange notes acquired by you under the exchange offer are being acquired in the ordinary course of business, whether or not you are the holder,

(3) you or any other person who receives exchange notes, whether or not such person is the holder of the exchange notes, has an arrangement or understanding with any person to participate in a distribution of such exchange notes within the meaning of the Securities Act and is not participating in, and does not intend to participate in, the distribution of such exchange notes within the meaning of the Securities Act,

(4) you or such other person who receives exchange notes, whether or not such person is the holder of the exchange notes, is not an affiliate, as defined in Rule 405 of the Securities Act, of ours, or if you or such other person is an affiliate, you or such other person will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable,

(5) if you are not a broker-dealer, you represent that you are not engaging in, and do not intend to engage in, a distribution of exchange notes, and

(6) if you are a broker-dealer that will receive exchange notes for your own account in exchange for initial notes, you represent that the initial notes to be exchanged for the exchange notes were acquired by you as a result of market-making or other trading activities and acknowledge that you will deliver a prospectus in connection with any resale, offer to resell or other transfer of such exchange notes.

You must also warrant that the acceptance of any tendered initial notes by the issuer and the issuance of exchange notes in exchange for the tendered initial notes shall constitute performance in full by the issuer of its obligations under the registration rights agreement relating to the initial notes.

To effectively tender notes through The Depository Trust Company, the financial institution that is a participant in The Depository Trust Company will electronically transmit its acceptance through the Automatic Tender Offer Program. The Depository Trust Company will then edit and verify the acceptance and send an agent s message to the exchange agent for its acceptance. An agent s message is a message transmitted by The

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Depository Trust Company to the exchange agent stating that The Depository Trust Company has received an express acknowledgment from the participant in The Depository Trust Company tendering the notes that this participant has received and agrees to be bound by the terms of the letter of transmittal, and that we may enforce this agreement against this participant.

Book-Entry Delivery Procedure

Any financial institution that is a participant in The Depository Trust Company s systems may make book-entry deliveries of initial notes by causing The Depository Trust Company to transfer these initial notes into the exchange agent s account at The Depository Trust Company in accordance with The Depository Trust Company s procedures for transfer. To effectively tender notes through The Depository Trust Company, the financial institution that is a participant in The Depository Trust Company will electronically transmit its acceptance through the Automatic Tender Offer Program. The Depository Trust Company will then edit and verify the acceptance and send an agent s message to the exchange agent for its acceptance. An agent s message is a message transmitted by The Depository Trust Company to the exchange agent stating that The Depository Trust Company has received an express acknowledgment from the participant in The Depository Trust Company tendering the notes that this participation has received and agrees to be bound by the terms of the letter of transmittal, and that we may enforce this agreement against this participant. The exchange agent will make a request to establish an account for the initial notes at The Depository Trust Company for purposes of the exchange offer within two business days after the date of this prospectus.

A delivery of initial notes through a book-entry transfer into the exchange agent s account at The Depository Trust Company will only be effective if an agent s message or the letter of transmittal or a facsimile of the letter of transmittal with any required signature guarantees and any other required documents is transmitted to and received by the exchange agent at the address indicated below under Exchange Agent on or before the expiration date unless the guaranteed delivery procedures described below are complied with. **Delivery of documents to The Depository Trust Company does not constitute delivery to the exchange agent.**

Guaranteed Delivery Procedure

If you are a registered holder of initial notes and desire to tender your notes, and (1) these notes are not immediately available, (2) time will not permit your notes or other required documents to reach the exchange agent before the expiration date or (3) the procedures for book-entry transfer cannot be completed on a timely basis and an agent s message delivered, you may still tender in this exchange offer if:

(1) you tender through a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States, or an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act,

(2) on or before the expiration date, the exchange agent receives a properly completed and duly executed letter of transmittal or facsimile of the letter of transmittal, and a notice of guaranteed delivery, substantially in the form provided by us, with your name and address as holder of the initial notes and the amount of notes tendered, stating that the tender is being made by that letter and notice and guaranteeing that within three New York Stock Exchange trading days after the expiration date the certificates for all the initial notes tendered, in proper form for transfer, or a book-entry confirmation with an agent s message, as the case may be, and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent, and

(3) the certificates for all your tendered initial notes in proper form for transfer or a book-entry confirmation as the case may be, and all other documents required by the letter of transmittal are received by the exchange agent within three New York Stock Exchange trading days after the expiration date.

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Acceptance of Initial Notes for Exchange; Delivery of Exchange Notes

Your tender of initial notes will constitute an agreement between you and us governed by the terms and conditions provided in this prospectus and in the related letter of transmittal.

We will be deemed to have received your tender as of the date when your duly signed letter of transmittal accompanied by your initial notes tendered, or a timely confirmation of a book-entry transfer of these notes into the exchange agent s account at The Depository Trust Company with an agent s message, or a notice of guaranteed delivery from an eligible institution is received by the exchange agent.

All questions as to the validity, form, eligibility, including time of receipt, acceptance and withdrawal of tenders will be determined by us in our sole discretion. Our determination will be final and binding.

We reserve the absolute right to reject any and all initial notes not properly tendered or any initial notes which, if accepted, would, in our opinion or our counsel s opinion, be unlawful. We also reserve the absolute right to waive any conditions of this exchange offer or irregularities or defects in tender as to particular notes with the exception of conditions to this exchange offer relating to the obligations of broker dealers, which we will not waive. If we waive a condition to this exchange offer, the waiver will be applied equally to all note holders. Our interpretation of the terms and conditions of this exchange offer, including the instructions in the letter of transmittal, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of initial notes must be cured within such time as we shall determine. We, the exchange agent or any other person will be under no duty to give notification of defects or irregularities with respect to tenders of initial notes. We and the exchange agent or any other person will incur no liability for any failure to give notification of these defects or irregularities. Tenders of initial notes will not be deemed to have been made until such irregularities have been cured or waived. The exchange agent will return without cost to their holders any initial notes that are not properly tendered and as to which the defects or irregularities have not been cured or waived promptly following the expiration date.

If all the conditions to the exchange offer are satisfied or waived on the expiration date, we will accept all initial notes properly tendered and will issue the exchange notes promptly thereafter. Please refer to the section of this prospectus entitled Conditions to the Exchange Offer below. For purposes of this exchange offer, initial notes will be deemed to have been accepted as validly tendered for exchange when, as and if we give oral or written notice of acceptance to the exchange agent.

We will issue the exchange notes in exchange for the initial notes tendered under a notice of guaranteed delivery by an eligible institution only against delivery to the exchange agent of the letter of transmittal, the tendered initial notes and any other required documents, or the receipt by the exchange agent of a timely confirmation of a book-entry transfer of initial notes into the exchange agent s account at The Depository Trust Company with an agent s message, in each case, in form satisfactory to us and the exchange agent.

If any tendered initial notes are not accepted for any reason provided by the terms and conditions of this exchange offer or if initial notes are submitted for a greater principal amount than the holder desires to exchange, the unaccepted or non-exchanged initial notes will be returned without expense to the tendering holder, or, in the case of initial notes tendered by book-entry transfer procedures described above, will be credited to an account maintained with the book-entry transfer facility, promptly after withdrawal, rejection of tender or the expiration or termination of the exchange offer.

By tendering into this exchange offer, you will irrevocably appoint our designees as your attorney-in-fact and proxy with full power of substitution and resubstitution to the full extent of your rights on the notes tendered. This proxy will be considered coupled with an interest in the tendered notes. This appointment will be effective only when, and to the extent that we accept your notes in this exchange offer. All prior proxies on these notes will then be revoked and you will not be entitled to give any subsequent proxy. Any proxy that you may give subsequently will not be deemed effective. Our designees will be empowered to exercise all voting and other rights of the holders as they may deem proper at any meeting of note holders or otherwise. The initial notes will be validly tendered only if we are able to exercise full voting rights on the notes, including voting at any meeting of the note holders, and full rights to consent to any action taken by the note holders.

Withdrawal of Tenders

Except as otherwise provided in this prospectus, you may withdraw tenders of initial notes at any time before 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective, you must send a written or facsimile transmission notice of withdrawal to the exchange agent before 5:00 p.m., New York City time, on the expiration date at the address provided below under Exchange Agent and before acceptance of your tendered notes for exchange by us.

Any notice of withdrawal must:

(1) specify the name of the person having tendered the initial notes to be withdrawn,

(2) identify the notes to be withdrawn, including, if applicable, the registration number or numbers and total principal amount of these notes,

(3) be signed by the person having tendered the initial notes to be withdrawn in the same manner as the original signature on the letter of transmittal by which these notes were tendered, including any required signature guarantees, or be accompanied by documents of transfer sufficient to permit the trustee for the initial notes to register the transfer of these notes into the name of the person having made the original tender and withdrawing the tender,

(4) specify the name in which any of these initial notes are to be registered, if this name is different from that of the person having tendered the initial notes to be withdrawn, and

(5) if applicable because the initial notes have been tendered through the book-entry procedure, specify the name and number of the participant s account at The Depository Trust Company to be credited, if different than that of the person having tendered the initial notes to be withdrawn.

We will determine all questions as to the validity, form and eligibility, including time of receipt, of all notices of withdrawal and our determination will be final and binding on all parties. Initial notes that are withdrawn will be deemed not to have been validly tendered for exchange in this exchange offer.

The exchange agent will return without cost to their holders all initial notes that have been tendered for exchange and are not exchanged for any reason, promptly after withdrawal, rejection of tender or expiration or termination of this exchange offer.

You may retender properly withdrawn initial notes in this exchange offer by following one of the procedures described under Procedures for Tendering Initial Notes above at any time on or before the expiration date.

Conditions to the Exchange Offer

We will complete this exchange offer only if:

(1) there is no change in the laws and regulations which would reasonably be expected to impair our ability to proceed with this exchange offer,

(2) there is no change in the current interpretation of the staff of the SEC which permits resales of the exchange notes,

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(3) there is no stop order issued by the SEC or any state securities authority suspending the effectiveness of the registration statement which includes this prospectus or the qualification of the indenture for our exchange notes under the Trust Indenture Act of 1939 and there are no proceedings initiated or, to our knowledge, threatened for that purpose,

(4) there is no action or proceeding instituted or threatened in any court or before any governmental agency or body that would reasonably be expected to prohibit, prevent or otherwise impair our ability to proceed with this exchange offer, and

(5) we obtain all governmental approvals that we deem in our sole discretion necessary to complete this exchange offer.

These conditions are for our sole benefit. We may assert any one of these conditions regardless of the circumstances giving rise to it and may also waive any one of them, in whole or in part, at any time and from time to time, if we determine in our reasonable discretion that it has not been satisfied, subject to applicable law. Notwithstanding the foregoing, all conditions to the exchange offer must be satisfied or waived before the expiration of this exchange offer. If we waive a condition to this exchange offer, the waiver will be applied equally to all note holders. We will not be deemed to have waived our rights to assert or waive these conditions if we fail at any time to exercise any of them. Each of these rights will be deemed an ongoing right which we may assert at any time and from time to time.

If we determine that we may terminate this exchange offer because any of these conditions is not satisfied, we may:

(1) refuse to accept and return to their holders any initial notes that have been tendered,

(2) extend the exchange offer and retain all notes tendered before the expiration date, subject to the rights of the holders of these notes to withdraw their tenders, or

(3) waive any condition that has not been satisfied and accept all properly tendered notes that have not been withdrawn or otherwise amend the terms of this exchange offer in any respect as provided under the section in this prospectus entitled Expiration Date; Extensions; Amendments; Termination.

Accounting Treatment

We will record the exchange notes at the same carrying value as the initial notes as reflected in our accounting records on the date of the exchange. Accordingly, we will not recognize any gain or loss for accounting purposes. We will amortize the costs of the exchange offer and the unamortized expenses related to the issuance of the exchange notes over the term of the exchange notes.

Exchange Agent

We have appointed U.S. Bank National Association as exchange agent for this exchange offer. You should direct all questions and requests for assistance on the procedures for tendering and all requests for additional copies of this prospectus or the letter of transmittal to the exchange agent as follows:

U.S. Bank National Association

EP-MN-WSZN

60 Livingston Avenue

St. Paul, MN 55107

Facsimile Transmission: U.S. Bank National Association

(651) 495-8158

Confirm by Telephone: (800) 924-6802

Attention: Specialized Finance Department

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Fees and Expenses

We will bear the expenses of soliciting tenders in this exchange offer, including fees and expenses of the exchange agent and trustee and accounting, legal, printing and related fees and expenses.

We will not make any payments to brokers, dealers or other persons soliciting acceptances of this exchange offer. However, we will pay the exchange agent reasonable and customary fees for its services and will reimburse the exchange agent for its reasonable out-of-pocket expenses in connection with this exchange offer. We will also pay brokerage houses and other custodians, nominees and fiduciaries their reasonable out-of-pocket expenses for forwarding copies of the prospectus, letters of transmittal and related documents to the beneficial owners of the initial notes and for handling or forwarding tenders for exchange to their customers.

We will pay all transfer taxes, if any, applicable to the exchange of initial notes in accordance with this exchange offer. However, tendering holders will pay the amount of any transfer taxes, whether imposed on the registered holder or any other persons, if:

(1) certificates representing exchange notes or initial notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be registered or issued in the name of, any person other than the registered holder of the notes tendered,

(2) tendered initial notes are registered in the name of any person other than the person signing the letter of transmittal, or

(3) a transfer tax is payable for any reason other than the exchange of the initial notes in this exchange offer.

If you do not submit satisfactory evidence of the payment of any of these taxes or of any exemption from this payment with the letter of transmittal, we will bill you directly the amount of these transfer taxes.

Your Failure to Participate in the Exchange Offer Will Have Adverse Consequences

The initial notes were not registered under the Securities Act or under the securities laws of any state and you may not resell them, offer them for resale or otherwise transfer them unless they are subsequently registered or resold under an exemption from the registration requirements of the Securities Act and applicable state securities laws. If you do not exchange your initial notes for exchange notes in accordance with this exchange offer, or if you do not properly tender your initial notes in this exchange offer, you will not be able to resell, offer to resell or otherwise transfer the initial notes unless they are registered under the Securities Act or unless you resell them, offer to resell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act.

In addition, except as set forth in this paragraph, you will not be able to obligate us to register the initial notes under the Securities Act. You will not be able to require us to register your initial notes under the Securities Act unless you notify us prior to 20 business days following the completion of the exchange offer that:

(1) you were prohibited by law or SEC policy from participating in the exchange offer;

(2) you may not resell the exchange notes you acquired in the exchange offer to the public without delivering a prospectus and the prospectus contained in the exchange offer registration statement is not appropriate or available for such resales by you; or

(3) you are a broker-dealer and hold initial notes acquired directly from us or any of our affiliates.

In these cases, the registration rights agreement requires us to file a registration statement for a continuous offering in accordance with Rule 415 under the Securities Act for the benefit of the holders of the initial notes

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described in this sentence. We do not currently anticipate that we will register under the Securities Act any notes that remain outstanding after completion of the exchange offer.

Delivery of Prospectus

Each broker-dealer that receives exchange notes for its own account in exchange for initial notes, where such initial notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. See Plan of Distribution.

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DESCRIPTION OF THE NOTES

Unifi, Inc. issued the initial notes and will issue the exchange notes under an indenture among itself, the Guarantors and U.S. Bank National Association, as trustee. You can find the definitions of certain terms used in this description below under Certain Definitions. Certain defined terms used in this description but not defined below under Certain Definitions have the meanings assigned to them in the indenture. Copies of the indenture, the registration rights agreement, the Collateral Documents and the Intercreditor Agreement are available as set forth below under Additional Information. In this description, the term Unifi refers only to Unifi, Inc. and not to any of its subsidiaries. The term notes refers to Unifi s initial notes and exchange notes. The terms of the notes will include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the notes, the indenture, the registration rights agreement, the Collateral Documents and the Intercreditor Agreement. It does not restate any such agreement or instrument in its entirety. We urge you to read the notes, the indenture, the registration rights agreement, the Collateral Documents and the Intercreditor Agreement because they, and not this description, define your rights as holders of the notes.

The registered holder of a note will be treated as its owner for all purposes. Only registered holders will have rights under the indenture.

Brief Description of the Notes and the Subsidiary Guarantees

The Notes. The exchange notes will be:

- senior obligations of Unifi;

- secured by first-priority Liens and security interests, subject to Permitted Liens, in substantially all of the assets (other than inventory, accounts receivable, general intangibles (other than any uncertificated securities representing Capital Stock of any Subsidiary of Unifi or the Guarantors and each Person in which Unifi or a Guarantor has a direct interest), investment property (other than Capital Stock of any Subsidiary of Unifi or the Guarantors and each Person in which Unifi or a Guarantor has a direct interest), chattel paper, documents, instruments, supporting obligations, letter of credit rights, deposit accounts and other personal property, and all proceeds relating to any of the above, which secure the Credit Agreement on a first-priority basis) of Unifi and the Guarantors, including, but not limited to, the real property, fixtures, equipment, general intangibles with respect to any uncertificated securities representing the Capital Stock of any Subsidiary of Unifi or the Guarantors and any Person in which Unifi or a Guarantor has a direct interest, and investment property consisting of the Capital Stock of each Subsidiary of Unifi or the Guarantors and each other Person in which Unifi or a Guarantor has a direct interest, now owned or hereafter acquired by Unifi and the Guarantors, in each case, other than Excluded Assets and as further described under Security Assets Pledged as Collateral;

- secured by second-priority Liens and security interests, subject to Permitted Liens, in the inventory, accounts receivable, general intangibles (other than any uncertificated securities representing Capital Stock of any Subsidiary of Unifi or the Guarantors and each Person in which Unifi or a Guarantor has a direct interest), investment property (other than Capital Stock of any Subsidiary of Unifi or the Guarantors and each Person in which Unifi or a Guarantor has a direct interest), chattel paper, documents, instruments, supporting obligations, letter of credit rights, deposit accounts and other personal property, and all proceeds relating to any of the above, which secure the Credit Agreement on a first-priority basis, now owned or hereafter acquired by Unifi and the Guarantors, in each case, other than Excluded Assets and as further described under Security Assets Pledged as Collateral;

- *pari passu* in right of payment with all existing and future senior Indebtedness of Unifi;

- senior in right of payment to any future subordinated Indebtedness of Unifi;

- effectively subordinated to Unifi s obligations under the Credit Agreement to the extent the Second Priority Collateral secures such obligations on a first-priority basis;
- effectively senior to all of Unifi s existing and future Indebtedness to the extent the First Priority Collateral secures the obligations under the notes on a first-priority basis;
- unconditionally guaranteed by the Guarantors on a senior secured basis; and
- effectively subordinated to all Indebtedness and other liabilities, including trade payables, of Unifi s non-guarantor Subsidiaries (other than Indebtedness and other liabilities owed to Unifi or a Guarantor).

The Subsidiary Guarantees. The exchange notes will be guaranteed by each of Unifi s current and future Domestic Subsidiaries.

Each Subsidiary Guarantee will be:

- the senior obligation of the Guarantor;
- secured by first-priority Liens and security interests, subject to Permitted Liens, in the First Priority Collateral now owned or hereafter acquired by the Guarantor;
- secured by second-priority Liens and security interests, subject to Permitted Liens, in the Second Priority Collateral now owned or hereafter acquired by the Guarantor;
- *pari passu* in right of payment with all existing and future senior Indebtedness of such Guarantor;
- senior in right of payment to any existing and future subordinated Indebtedness of such Guarantor;
- effectively subordinated to the Guarantor s obligations under the Credit Agreement to the extent the Second Priority Collateral secures such obligations on a first-priority basis; and
- effectively senior to all of the Guarantor s existing and future Indebtedness to the extent the First Priority Collateral secures the obligations under the Subsidiary Guarantee on a first-priority basis.

As of June 25, 2006, Unifi and the Guarantors had total indebtedness of approximately $208.4 million, including $190.0 million outstanding under the initial notes, and $1.3 million outstanding under the 2008 notes.

Subject to certain limitations, the indenture permits Unifi and its Restricted Subsidiaries to incur additional Indebtedness.

As of June 25, 2006, the notes were effectively subordinated to $19.9 million of indebtedness and other liabilities of our non-guarantor subsidiaries, and our non-guarantor subsidiaries and we had assets of $32.4 million and $190.2 million, respectively, in equity investees. See Risk Factors Risks Related to The Notes and This Offering The notes are effectively subordinated to the liabilities and preferred stock, if any, of our non-guarantor subsidiaries and our equity investees.

In the event of a bankruptcy, liquidation or reorganization of any of the non-guarantor Subsidiaries, such non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to Unifi or the Guarantors. The Guarantors generated 85.7% of our consolidated revenues in fiscal year 2006. See note 21 to our audited consolidated financial statements included in this prospectus for more detail about the division of our consolidated revenues and assets between our guarantor and non-guarantor Subsidiaries.

All of our Subsidiaries are Restricted Subsidiaries. However, under the circumstances described below under the caption Certain Covenants Designation of Unrestricted Subsidiaries, we will be permitted to designate certain of our Subsidiaries as Unrestricted Subsidiaries. Our Unrestricted Subsidiaries will not be subject to many of the restrictive covenants set forth in the indenture. Our Unrestricted Subsidiaries will not guarantee the notes.

Principal, Maturity and Interest

Unifi issued initial notes in the aggregate principal amount of $190.0 million on the Issue Date and will issue exchange notes with an initial maximum aggregate principal amount of up to $190.0 million. Unifi may issue additional notes under the indenture from time to time after this offering; *provided*, *however*, that the net cash proceeds from any such issuance of additional notes shall be deposited into the First Priority Collateral Account and invested by Unifi in Additional Assets; provided, further, that at least 95% of such net cash proceeds shall be used to acquire or invest in Additional Assets which are assets of the type that would constitute First Priority Collateral and which upon their acquisition shall constitute First Priority Collateral in accordance with the provisions of the Intercreditor Agreement. Any issuance of additional notes is subject to all of the covenants in the indenture, including the covenant described below under the caption Certain Covenants Incurrence of Indebtedness. The notes and any additional notes subsequently issued under the indenture will have the same terms (except as to issue date, issue price and first interest payment date) and will be treated as a single class for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. Unifi will issue notes in denominations of $2,000 and integral multiples of $1,000 in excess thereof. The notes will mature on May 15, 2014.

Interest on the notes accrues at the rate of 11.50% per annum and will be payable semi-annually in arrears on May 15 and November 15, commencing on November 15, 2006. Unifi will make each interest payment to the holders of record on the immediately preceding May 1 and November 1.

Interest on the notes accrues from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months.

Methods of Receiving Payments on the Notes

If a holder of notes has given wire transfer instructions to Unifi, Unifi will pay all principal, interest and premium and Additional Interest, if any, on such holder s notes in accordance with those instructions. All other payments on the notes will be made at the office or agency of the paying agent and registrar within the City and State of New York unless Unifi elects to make interest payments by check mailed to the noteholders at their address set forth in the register of holders.

Unifi will pay principal, interest and premium and Additional Interest, if any, on each note in global form registered in the name of or held by DTC or its nominee in immediately available funds to DTC or its nominee, as the case may be, as the registered holder of such global note.

Paying Agent and Registrar for the Notes

The trustee acts as paying agent and registrar. Unifi may change the paying agent or registrar without prior notice to the holders of the notes, and Unifi or any of its Subsidiaries may act as paying agent or registrar.

Transfer and Exchange

A holder may transfer or exchange notes in accordance with the provisions of the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. Unifi will not be required to transfer or exchange any note selected for redemption. Also, Unifi will not be required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

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Subsidiary Guarantees

Unifi s obligations under the notes and the indenture are guaranteed on a senior basis by each of Unifi s current and future Domestic Subsidiaries. These Subsidiary Guarantees are joint and several obligations of the Guarantors. Each Subsidiary Guarantee is secured by the portion of the Collateral, if any, owned by such Guarantor. The obligations of each Guarantor under its Subsidiary Guarantee are limited as necessary to prevent that Subsidiary Guarantee from constituting a fraudulent conveyance or transfer under applicable law. See Risk Factors Risks Related to the Notes and This Offering We and the guarantors may be subject to laws relating to fraudulent conveyance.

A Guarantor may not sell, assign, transfer, convey, lease or otherwise dispose of all or substantially all of its properties or assets to, or consolidate or merge with or into (whether or not such Guarantor is the surviving Person) another Person, other than Unifi or another Guarantor, unless:

(1) immediately after giving effect to such transaction, no Default or Event of Default exists; and

(2) either:

(a) the Person acquiring the property in any such sale, disposition or other transfer or the Person formed by or surviving any such consolidation or merger assumes all the obligations of such Guarantor under the indenture (including its Subsidiary Guarantee), the registration rights agreement, the Collateral Documents to which such Guarantor is a party and the Intercreditor Agreement pursuant to agreements reasonably satisfactory to the trustee and the Collateral Agent; or

(b) the sale, disposition or other transfer is made in compliance with the applicable provisions of the indenture.

The Subsidiary Guarantee of a Guarantor will be automatically released:

(1) in connection with any sale, disposition or other transfer (including through merger, consolidation or spin-off) of Equity Interests of such Guarantor, following which such Guarantor is no longer a Subsidiary of Unifi, to a Person that is not (after giving effect to such transaction) Unifi or a Restricted Subsidiary of Unifi, if such sale, disposition or other transfer is not prohibited by the applicable provisions of the indenture;

(2) with respect to any Foreign Subsidiary, the Guarantee which resulted in the creation of the Subsidiary Guarantee is released or discharged, except a discharge or release by or as a result of payment by such Foreign Subsidiary under such Guarantee;

(3) if Unifi designates such Guarantor as an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture; or

(4) upon the Legal Defeasance, Covenant Defeasance or satisfaction and discharge of the notes and the Subsidiary Guarantees as provided below under the captions Legal Defeasance and Covenant Defeasance and Satisfaction and Discharge.

Optional Redemption

At any time prior to May 15, 2009, Unifi may, on any one or more occasions, redeem up to 35% of the aggregate principal amount of notes (without duplication for Exchange Notes issued in exchange for other notes issued under the indenture) issued under the indenture (including additional notes) at a redemption price of 111.50% of the principal amount thereof, plus accrued and unpaid interest and Additional Interest, if any, to, but excluding, the redemption date, with the net cash proceeds of one or more Equity Offerings, *provided* that:

(1) at least 65% of the aggregate principal amount of notes (without duplication for Exchange Notes issued in exchange for other notes issued under the indenture) issued under the indenture (excluding notes held by Unifi

and its Subsidiaries but including additional notes) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

Except pursuant to the preceding paragraph, the notes will not be redeemable at Unifi s option prior to May 15, 2010.

On and after May 15, 2010, Unifi may redeem all or a part of the notes upon not less than 30 nor more than 60 days notice except as otherwise provided under Selection and Notice below, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and Additional Interest, if any, on the notes redeemed, to, but excluding, the applicable redemption date, if redeemed during the twelve-month period beginning on May 15 of the years indicated below:

Year	Percentage
2010	105.750%
2011	102.875%
2012 and thereafter	100.000%

Unless Unifi defaults in the payment of the redemption price, interest will cease to accrue on the notes or portions thereof called for redemption on the applicable redemption date. If the redemption date is on or after an interest payment record date and on or before the related interest payment date, the accrued and unpaid interest and Additional Interest, if any, will be paid to the holder in whose name the note is registered at the close of business on such record date, and no additional interest or Additional Interest, if any, will be payable to holders whose notes will be subject to redemption by Unifi.

Selection and Notice

If less than all of the notes are to be redeemed at any time, the trustee will select notes for redemption as follows:

(1) if the notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the notes are listed; or

(2) if the notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as the trustee deems fair and appropriate.

No notes of $2,000 or less shall be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. Notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder thereof upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of notes called for redemption.

Mandatory Redemption

Unifi is not required to make mandatory redemption or sinking fund payments with respect to the notes.

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Security

Assets Pledged as Collateral

The notes and Subsidiary Guarantees and all Obligations of Unifi and the Guarantors thereunder and under the Indenture are secured by:

- first-priority Liens and security interests, subject to Permitted Liens, in substantially all of the assets (other than inventory, accounts receivable, general intangibles (other than any uncertificated securities representing Capital Stock of any Subsidiary of Unifi or the Guarantors and each Person in which Unifi or a Guarantor has a direct interest), investment property (other than Capital Stock of any Subsidiary of Unifi or the Guarantors and each Person in which Unifi or a Guarantor has a direct interest), chattel paper, documents, instruments, supporting obligations, letter of credit rights, deposit accounts and other personal property, and all proceeds relating to any of the above, which secure the Credit Agreement on a first-priority basis) of Unifi and the Guarantors, including, but not limited to, the real property, fixtures, equipment, general intangibles with respect to any uncertificated securities representing the Capital Stock of any Subsidiary of Unifi or the Guarantors and any Person in which Unifi or a Guarantor has a direct interest, and investment property consisting of the Capital Stock of each Subsidiary of Unifi or the Guarantors and each other Person in which Unifi or a Guarantor has a direct interest, now owned or hereafter acquired by Unifi and the Guarantors, in each case, other than Excluded Assets and as further described below; and

- second-priority Liens and security interests, subject to Permitted Liens, in the inventory, accounts receivable, general intangibles (other than any uncertificated securities representing Capital Stock of any Subsidiary of Unifi or the Guarantors and each Person in which Unifi or a Guarantor has a direct interest), investment property (other than Capital Stock of any Subsidiary of Unifi or the Guarantors and each Person in which Unifi or a Guarantor has a direct interest), chattel paper, documents, instruments, supporting obligations, letter of credit rights, deposit accounts and other personal property, and all proceeds relating to any of the above, which secure the Credit Agreement on a first-priority basis, now owned or hereafter acquired by Unifi and the Guarantors, in each case, other than Excluded Assets and as further described below.

The First Priority Collateral will include any improvements or additions to the real property, fixtures and equipment that currently form part of the First Priority Collateral and any additional First Priority Collateral acquired with the proceeds of any issuance of additional notes, as described in Principal, Maturity and Interest. In addition, Unifi and the Guarantors are required to pledge as First Priority Collateral any additional real property or related fixtures and equipment acquired after the date hereof, including property or related fixtures and equipment acquired with the proceeds from certain specified transactions as described below under Certain Covenants with respect to the Collateral After-acquired property, in each case, other than those assets that constitute Excluded Assets.

The lenders under our Credit Agreement have a first-priority security interest in the Second Priority Collateral and a second-priority security interest in the First-Priority Collateral. The priority of the security interests are governed by the Intercreditor Agreement, which is described below under Intercreditor Arrangements.

The Collateral will not include any of the following assets (the Excluded Assets):

(1) any property or assets owned by any Subsidiary of Unifi which is not a Guarantor,

(2) any rights or interest of Unifi or any Guarantor in, to or under any agreement, contract, license, instrument, document or other general intangible (referred to solely for purposes of this definition as a Contract) (i) to the extent that such Contract by the express terms of a valid and enforceable restriction in favor of a Person who is not Unifi or any Restricted Subsidiary, or any requirement of law, prohibits, or requires any consent or establishes any other condition for, an assignment thereof or a grant of a security interest therein by

Unifi or a Guarantor and (ii) which, if in existence or the subject of rights in favor of Unifi or any Guarantor as of the Issue Date and with respect to which a contravention or other violation caused or arising by its inclusion as Collateral has occurred, is listed and designated as such on a schedule to any such party s perfection certificate required by the Collateral Documents or individually or collectively is not material to the conduct of the business of Unifi or such Guarantor; provided that: (i) rights to payment under any such Contract otherwise excluded from the Collateral by virtue of this definition shall be included in the Collateral to the extent permitted thereby or by Section 9-406 or Section 9-408 of the Uniform Commercial Code and (ii) all proceeds paid or payable to Unifi or any Guarantor from any sale, transfer or assignment of such Contract and all rights to receive such proceeds shall be included in the Collateral;

(3) any equipment of Unifi or any Guarantor which is subject to, or secured by, a Capital Lease Obligation or Purchase Money Indebtedness if and to the extent that (i) the express terms of a valid and enforceable restriction in favor of a Person who is not Unifi or a Restricted Subsidiary contained in the agreements or documents granting or governing such Capital Lease Obligation or Purchase Money Indebtedness prohibits, or requires any consent or establishes any other conditions for, an assignment thereof, or a grant of a security interest therein, by Unifi or any Guarantor and (ii) such restriction relates only to the asset or assets acquired by Unifi or any Guarantor with the proceeds of such Capital Lease Obligation or Purchase Money Indebtedness and attachments thereto or substitutions therefor; provided that all proceeds paid or payable to any of Unifi or any Guarantor from any sale, transfer or assignment or other voluntary or involuntary disposition of such equipment and all rights to receive such proceeds shall be included in the Collateral to the extent not otherwise required to be paid to the holder of the Capital Lease Obligation or Purchase Money Indebtedness secured by such equipment;

(4) any Voting Stock that is issued by any Person not organized under the laws of the United States or any state of the United States or the District of Columbia and owned by Unifi or any Guarantor, if and to the extent that the inclusion of such Voting Stock i