**UNIFI**

**Moderator: Ron Smith**
**October 30, 2008**
**10:00 AM ET**

Operator: Good day, ladies and gentlemen. And welcome to UNIFI, Inc.'s First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct the question-and-answer session and instructions will be given at that time. If anyone should require assistance during the conference call, please press * 0 on your touch-tone telephone. As a reminder, this conference call may be recorded. I would now like to hand the conference over to Mr. Ron Smith, UNIFI's Chief Financial Officer. Sir, you may begin.

Ron Smith: Thanks, Operator, and good morning, everyone. Joining me for the conference call today is Bill Jasper (ph), our President and CEO. During this call, we will be referencing presentation materials that can be found on our website, www.unifi.com. The presentation can be accessed by clicking the First Quarter Conference Call link found on the home page. I hope that you have the presentation available, as it will be easier to track through the information discussed in this call. Before we begin, I need to advise you that certain statements included herein may be forward-looking statements within the meaning of Federal Securities Laws. Management cautions that these statements are based on management's current expectations, estimates, and our projections about the markets in which the Company operates. Therefore, these statements are not guarantees of future performance, and involve certain risks that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted, or implied by these statements.

I direct you to the disclosure in our 10-Qs and 10-Ks regarding various factors that may impact these results. Before we review the preliminary operating results for the quarter, I'd like to turn the call over to Bill Jasper, who will provide a brief overview of the market conditions that are impacting our results. Bill?

Bill Jasper: Thanks, Ron, and good morning everyone. The economic downturn began to impact our sales volume about mid way through the September quarter, and there's no doubt it will continue to influence our business in the December quarter. The conditions in each of our major business segments have been challenging and I'll take a few moments to give you some background on a few of them.

Let's start with the furnishing segment. Existing home sales for August 2008 were 15% lower than the prior year August, and the seasonally-adjusted annual rate for existing home sales is down nearly 11%. This decline caused a projected decrease of 10.7% in retail sales at furniture and home furnishing stores in September, coming on the heels of a decrease of 9.2% in August. Year-to-date, through June, domestic and imported upholstered furniture shipments are down 12.4% and 7.8% respectively, which has a direct impact on demand for our products in this segment.

And, the tightening of the credit market has worsened the situation, as more than 70% of all furniture and mattress purchases are financed. The erosion of this market and subsequent reduction in demand contributed to three of our packaged dye yarn competitors shutting down operations in the last three months. This will lead to consolidation of production to a few dyeing operations, which include our own.

In the automotive segment, US sales of cars and light trucks are down 12.8% year-to-date through September, and year-to-date production is down 14% compared to a year ago levels. US lenders have begun tightening financial standards, for instance, GMAC recently announced that it will offer financing only to consumers with a credit score of at least 700, which excludes 42% of Americans. Given the credit crunch and the negative economic news dominating the media, we are expecting lower production levels in this segment for the remainder of calendar 2008, and well into 2009.

The apparel and hosiery segments at retail have fared significantly better, but the expectations are now uncertain. According to the International Council of Shopping Centers report of 36 retail chains, same-store sales of apparel and hosiery rose 1% last month, the weakest September performance since 2001. And, according to the results of the NPD Group's annual survey of consumers' holiday spending intentions, 26% of consumers plan to spend this year than last, which is leading many apparel retailers to predict that the upcoming holiday season could be the worst in two decades.

On a positive note, many US retailers are taking advantage of the shorter lead times offered by the CAFTA region to better manage inventories and deliveries. A majority of the garments there are made using US fiber. As a result, year-to-date imports of synthetic apparel from the CAFTA region have increased 13.6% compared to a 4.4% decline in overall imports.

In addition to the challenges caused by the difficult economic conditions in the US markets, our businesses continue to be impacted by volatile raw material costs in our first fiscal quarter. For example, costs for polyester raw materials were up 25% on average during the September quarter, compared to the prior year quarter, and costs for nylon raw materials were up 15% on average. In response to these dramatic increases, the Company increased prices to its customers during the first fiscal quarter. We were able to pass along a portion of the raw material increases as raw material costs peaked in July and began to decline in August.

Accordingly, we will be negatively impacted in the current quarter, as the higher priced purchases from the first quarter make their way through our inventory systems with the largest impact being felt in the December quarter. When combined with the softening volumes, we expect the summer quarter to be challenging; however, we are optimistic about our margins moving into the third fiscal quarter as we recapture lost margins. In summary, the global economic slowdown is clearly having an impact on our downstream markets, and demand for our product will likely be softer for the next few quarters. However, over the last six months we have taken action to account for potential downturns through the consolidation of our manufacturing base into our most modern and efficient assets, most notably the shutdown of T4 Polyester Texturing, and the shutdown of Stanton and subsequent move of beaming operations to Yadkinville.

In addition to this, we have established outside sources of commodity finished product to supplement our sales in higher demand periods. This helps assure our most efficient machinery runs at high utilization, which helps drive down manufacturing costs. In addition to that, we continue to pursue opportunities to reduce the cost of our raw materials.

I will comment further on our strategies for moving forward at the end of the call, but for now I would like to turn the call back over to Ron, who will take you through our preliminary results for the September quarter. Ron?

Ron Smith: Thanks, Bill. If you're following along from the website presentation, I'll begin my comments on Slide 3. Despite market softening as we moved through the quarter, year-over-year net sales remained relatively flat with the prior year's September quarter at $169 million. For the quarter, we had a net loss including discontinued operations of $676,000 or $0.01 per share, despite having income from continuing operation before income taxes of $1.3 million. This net loss, in spite of having pre-tax income, is a result of the losses from our domestic business not being eligible for tax benefit treatment due to our net deferred tax asset position.

These results compare favorably to a loss from the continuing operations before income taxes of $16.1 million, and a net loss of $9.2 million, or $0.15 per share, in the prior year's September quarter.

The year-over-year improvement is the result of a 150 basis point improvement in gross margin, and approximately $12 million of restructuring and impairment charges that were included in last year's September quarter, $3.6 million of which were recorded as SG&A.

SG&A expenses for the quarter were $10.5 million, which reflect our current run rate. However, as mentioned in the June conference call, we expect a slight increase in these expenses going forward to support our product development, sales, and technical service efforts as we focus on long-term growth of our PVA product portfolio.

Turning to Page 4, quarter-over-quarter total volume declined 13% on a consolidated basis while overall pricing improved 12%, driven by increased PVA volumes and other mix enrichments in conjunction with passing along a portion of the raw material price increases during the year. Compared to the June quarter, total volume declined 12.6% on a consolidated basis, and the overall price improved 1.7%, well below the raw material increases described by Bill earlier. From a volume perspective, most of the decline from the June quarter is attributable to the number of operating weeks within the quarter. The June quarter contained 14 operating weeks, and the September quarter only contained 12 operating weeks. Across the quarter, volume started out ahead of budget, but softened significantly in September for the U.S. operations.

Within our segments, polyester volume decreased 16% compared to prior year's September quarter, offset by an 11% improvement in pricing. Much of this volume decline can be attributed to the reduction in merchant market sales of commodity POY, stemming from shutting our Kingston facility in October 2007. Year-over-year declines in domestic textured polyester volume were mostly offset by volume gains in Brazil, which posted another strong quarter. In polyester pricing, the September quarter improved 1.4%, also well below the 10% increase in polyester raw material costs seen during the quarter. Nylon had a strong quarter, with volumes 15% over their prior year quarter levels, but nylon pricing declined 1% compared to the June quarter due to a slight shift in mix. Now, we'll turn to the balance sheet which can be found on Slide 5.

Cash on hand at the end of the September quarter was $20 million, which is unchanged compared to the end of the June quarter. During the quarter, total cash including restricted cash in both the US and Brazil decreased from $55.6 million in June to $47.7 million at the end of September. The majority of this decrease is attributable to the positive cash flow from operations being more than offset by cash consumed from working capital, $3.6 million of capital expenditures, $3 million of a net revolver payment, and the impact of the currency exchange rate in Brazil.

During the quarter, cash and working capital were significantly impacted by the change in the US dollar to Brazilian Real exchange rate. We ended the June quarter with a 1.59 BRL to the dollar exchange rate, but finished the September quarter at 1.9 BRL to the dollar. The cumulative translation impact of this Real devaluation on the Brazilian balances was a $2.4 million reduction in cash, a $2.9 million reduction in restricted cash, and a $6.9 million reduction in working capital. It's also important to note that starting this quarter, restricted cash now includes the restricted cash deposits in Brazil with secure VAT tax incentive loans, in addition to the domestic restricted cash reserved for capital expenditures in accordance with the Company's long term borrowing agreements.

In addition, restricted cash will now be broken out as current or non-current on the balance sheet based on the corresponding obligation or liability. The September restricted cash balances are $7.3 million of current representing Brazil deposits associated with short term ICMS loans, and $20.0 million of non-current comprised of $5.5 million of additional restricted cash in Brazil related to the long term ICMS loans and $14.5 million of domestic restricted cash related to the 2014 note obligations.

Total long term debt as of September 2008 was $196 million, a decrease of $5 million from June 2008. At the end of the September quarter, we did not have any borrowings outstanding under our revolver, and availability was $89 million. Net working capital balances decreased $3 million from the end of the June quarter. In addition to the currency impact in Brazil, the other primary drivers of the working capital decrease were a reduction in net receivables, and an additional three months worth of accrued interest related to our semi-annual interest payment on the 2014 notes which is due November 15.

Offsetting those impacts were higher priced raw materials, higher domestic POY inventory levels, and anticipation of the planned maintenance overhaul of our POY facility in early October and increased inventory pounds in Brazil.

Turning to Slide 6, during the September quarter our 34% share of income generated by Parkdale America was $3.5 million, and we received $2.1 million of distributions. Turning to Slide 7, the Company reported adjusted EBITDA of $13.9 million. As noted earlier, the quarter started strong, but weakened in the latter half as volume fell off and higher priced raw material purchases made their way through the system. It's important to note that this adjusted EBITDA excludes approximately $1.2 million of expenses from the quarter related to the consolidation of our Stanton Beaming facility into our Yadkinville facility, and certain project expenses to prepare for the maintenance overhaul of our POY facility.

We expect approximately $2 million of similar costs to be incurred in the December quarter to complete these two projects and an additional project aimed at creating more flexibility within our texturing operations.

As noted previously, we're committed to our strategy of optimizing our asset configuration and developing and commercializing our PVA products. Each of these unique projects have near term paybacks, and are crucial to the accomplishment of those strategies. Going forward, we're forecasting adjusted EBITDA in the range of $8 million to $9 million for the December quarter, after adding back the previously-noted $2 million of anticipated costs related to the asset consolidation projects.

As Bill mentioned earlier, market conditions in our major in-use segments have become soft over the last 60 days, and the quarter will be negatively impacted by $2.5 million to $3 million of higher priced raw material purchases from the first quarter as they work their way through our inventory. For the remainder of Fiscal 2009, we are forecasting margin improvements beginning in the third quarter as we recapture loss margins over raw materials and the benefits of the asset consolidation projects begin to accumulate. But, like everyone else, we are uncertain about the direction of the overall economy.

With that in mind, and barring a significant slowdown from what we now see, we still believe adjusted EBITDA for Fiscal 2009 will be near $55 million, which is at the bottom end of the $55 million to $60 million range previously provided. Before I turn the call back over to Bill, I'd like to add a few additional comments regarding the assets held for sale.

As you may be aware, the Company previously announced that it had entered into an asset purchase agreement, which provided for the sale of all remaining assets and structures located at the Company's polyester manufacturing facility in Kingston, North Carolina, subject to certain closing conditions. On August 27, 2008, the buyer informed us that they were terminating the agreement, and would not be proceeding with the sale. We continued to actively market these assets, and they remain as assets held for sale on the face of our balance sheet.

In addition, the Company entered into an agreement in October to sell certain real property and related assets located in Yadkinville, North Carolina, which we refer to as T4. From the sale, the Company expects to net proceeds of approximately $7 million, and recognize a gain of approximately $5 million. The sale is expected to close in the current quarter, however, it is subject to customary closing conditions and there can be no assurances that the transaction will be completed during the quarter, or at all.

Now, I'd like to turn the call back over to Bill for a few final comments.

Bill Jasper: Thanks, Ron. I'd like to leave you with a brief update on a few of our growth initiatives going forward as well as a summary of our strategic focus. We continue to gain traction in our PVA business, particularly with Reprieve, our family of 100% recycled yarns. The Company launched Reprieve Nylon in the US market at the Summer Outdoor Retailer Show, and we are working closely with Mill Partners in the development of woven fabrics for technical sportswear, and knit fabrics for activewear. We also launched Reprieve Nylon to the Asian markets at the Inter-Textile Shanghai Apparel Fabric Show, which just wrapped up last week.

To help build the Reprieve brand, UNIFI unveiled a new consumer-focused, interactive website as part of our new Reprieve For The Planet campaign. The new website is focused on educating both consumers and customers about the environmental benefits of Reprieve, as well as the importance of resource and energy conservation and recycling. I would encourage you to check out the site, which is www.reprieve.com.

In China, we still expect to close the deal exiting the manufacturing JV (ph), and have the Chinese regulatory approvals finalized for UTSC, our new wholly-owned subsidiary, by the end of the year. Both of these initiatives are progressing, but they are subject to certain conditions and approvals, and there can be no assurances that the transaction will be completed in these time frames or at all.

Our growth in China will come from our ability to remain focused on identifying opportunities for new and existing PVA products in the region, and in utilizing the flexibility that UTSC provides to develop, source, sell and service them.

Brazil continues to perform well, and exceeded budgeted EBITDA for the quarter due to strong volumes and improved margins driven by growth of high value products in spite of the weakening currency Ron mentioned earlier. Unfortunately, the currency continues to weaken in this quarter, so while we expect Brazil to continue exceeding budget, we expect the results to suffer somewhat as we work to pass along the currency impact to the market.

In summary, we will stay focused on aggressively improving our business fundamentals. This will include: 1 – growing the value of our base business through share gain, operational and sales excellence, and the continual improvement of our commercial processes; 2 – aggressively growing the sales and earnings of our premium value-added product portfolio; and 3 – growing both sales and profits in China and Brazil. We are facing the challenges of a global financial slowdown with good liquidity, a strong balance sheet, and flexibility that we have not had in the past. While the next few months will be challenging for everyone, from corporations to consumers, we believe the Company has positioned itself well to weather uncertain economic times, and will ultimately exit the downturn stronger and more profitable thanks to continued and effective execution of our plans.

Before we open the floor to questions, I'd like to turn the floor back to Ron for a quick point. Ron?

Ron Smith: Thanks, Bill. I just wanted to remind everyone of a couple key dates coming up. We expect the final results of the September quarter to be filed with the SEC in our 10-Q on November 7th, and our quiet period for the second quarter will begin on December 23rd and extend through our earnings release conference call which is currently scheduled for February 5. With that, I'd now like to turn the floor over to questions. Operator?

Operator: Thank you, sir. Ladies and gentlemen, if you do have a question or comment at this time, please press the 1 key on your touch tone telephone. If your question has been answered, or you wish to remove yourself from the queue, please press the # key. If you are using a speaker phone, we do ask that you please lift your handset before asking your question. We'll pause as we wait for attendees to queue. Our first question or comment is from the line of Bryan Hunt with Wachovia. Mr. Hunt, your line is open.

Bryan Hunt: Thank you. Ron, I was wondering if you could go through your cost savings initiatives again, I guess there's two or three of them, and what the charges will be associated with those in the next quarter?

Ron Smith: Yeah, I think the – I think what we said was approximately $2 million, we expect about $2 million in charges in the next quarter related to those three projects. I won't break them out in specifics other than to say, I said two projects, I'm sorry. I meant three projects. The first one is the consolidation of our beaming facility, which was in Stanton, North Carolina, into Yadkinville, and that's probably the largest dollar impact savings we have. We've taken – we sold that plant about two years ago. We've now transitioned the business, I think effective this week we've stopped producing in Stanton. So, over the last 60 to 90 days, we've actually transitioned the product down to our facility in Yadkinville, as well as doing some outsourcing with that, and we've also moved – we're in the process, now, of moving the inventory down. So, I think the real negative impact that was flowing through there was the cost of moving and repositioning those assets. We upgraded a little bit of the assets on the capital side, and then the other impact was obviously – or the benefit of that is a savings between moving product back and forth, and we expect to see that savings as the buy-in comes back into that business.

The second project, and probably from an order of magnitude in the - we said we had $1.2 million of expense in the first quarter, and about $2 million of expense in the second quarter. From an order of magnitude, the POY project would be second there. Basically, what we're doing there, we had a maintenance shutdown we needed to take. It's a five year maintenance overhaul. So, we went through and did that process. But what we also did, more importantly, was getting ready for the flexibility project we've talked about around our spinning operation. It gives us much more flexibility around polymers, to be able to be utilized in that plant, and also specifically around the Reprieve product, it gives us much more flexibility around the production and movement of that Reprieve product. So, that one was very critical to us as far as our ability to support our PVA initiatives going forward.

And then, the third one is a project that didn't have any expense in the first quarter, but it'll have expense here in the second quarter. We're going through and doing some – as a part of getting out of T4, we had some excess machinery, so we're making some changes to those machines. We're moving parts of those machines into T5 to be able to make T5 a much more flexible operation. So, we're utilizing some idle equipment and some open space in our T5 operation to hopefully make that operation a whole lot more flexible, specifically around some of the shorter-run products that a lot of our PVA products are calling for these days.

Bryan Hunt: Could—could you talk about just PVA volumes in this quarter, relative to a year ago, and what type of growth could you see this year?

Ron Smith: I think the goal we've talked about on PVA was to grow that business by about 50% '08 – I'm sorry, '09 versus '08. We are close to being on track. I'm not going to say we're on track, I think we're very, very close to budget, but we're not quite – we're not quite at budget in PVA. I think a little bit of that is a slowdown in the economy, but I think the – yeah, we've also had unique programs that go in and out depending on what season you're on. So, I think from our – our expectation or our forecast, we're slightly behind that, but nowhere near kind of how we're behind on the volume on the commodity product. I mean, the commodity product is really where-- you know, there in September, the inventory adjustment or inventory correction that's going on through retail, we really started to feel the effects of that. But from a PVA standpoint, we still feel really good about our ability to improve that business by about 50%, year-over-year, but we're slightly behind right now.

Bryan Hunt: Okay. And just a few more questions – I mean, looking at the strength of the dollar, in the last, call it, a month-and-a-half. You obviously talked about Brazil. What's the impact to domestic produced yarns, versus import? What's the gap between you know, what your costs are, and what import values are, given the strength of the dollar and declining raw material prices in foreign markets relative to the US?

Ron Smith: Well, I think – I guess off the top of my head, I'll talk about China, there, first. If you look three years ago, four years ago, the exchange rate was 828 to $1.00. 828 RNB to $1.00. Today, that's 6.8, close to 7. So, that – that devaluation of the dollar over that three-year period has helped us, from an import standpoint. I mean, imports of yarn this year are down almost 16% to 17%. So, our business – we're much more competitive with imported yarn today than we were, say, three years ago. Now obviously, within the last two months, imports have actually started to – not imports, but the currency has started to turn around a little bit. But our tracking data from customs is a month or so behind, so we don't have live, up-to-the-minute data. But we're not expecting any significant change from an import standpoint because again, it's nowhere near gotten back to the point where it was. And I think also, the other point of it is, I know Bill wanted to talk about from the sourcing standpoint how we – we've been able to compete also.

Bill Jasper: Yeah, Ron, I guess the one thing I'd add is when you look at our costs through the system, raw materials are certainly a majority of our costs. And what drives imports, I think, more than currency differences, is a difference in raw materials between the US and Asia, which fluctuates quite substantially. With our new sourcing strategy and the ability to buy some of our raw materials from Asia, we're better able to adjust to those fluctuations, and it's really one of the flexibilities that we have now that we have not had in the past, and it's one of the reasons we feel a lot better about being able to compete going forward than we have in the past.

Bryan Hunt: All right. And then looking at Brazil, you’ve been growing so rapidly there, do you have any capacity issues? I know you're sending some equipment down there in the last year, are there any additional plans for that?

Ron Smith: Not necessarily an expansion plan. I think what we've done over the last probably three or four years in Brazil is upgrade their capabilities. We've moved equipment from here down to there, to give them new technology and new flexibility. When we bought the plant, the plant was in good shape but it didn't have the most modern equipment. So as we've upgraded that equipment, they've done a good job with being able to make our version of PVA, I think they're calling it Tailor Made, in Brazil, and they've done a much better job – or they've done a very good job of improving that business significantly. The machines we've sent down there, not only are they adding flexibility, but they're also a newer generation. They're more efficient, they run faster, they make better quality. So, you know, we'll continue to do that. I think out of the T4 shutdown, we've got a couple more machines that we're planning on moving down there over the next six months. So, we continue to see improvement both in the flexibility and the efficiency of that operation.

Bryan Hunt: All right, I'll get back in the queue. Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if you do have a question or comment at this time, please press the 1 key on your touch tone telephone. Our next question or comment is from the line of Chris Dechiario.

Unidentified Participant: Just one, and that's it?

Operator: Of IFI Capital.

Chris Dechiario: Good morning.

Ron Smith: Hey, Chris.

Bill Jasper: Good morning.

Chris Dechiario: Hi. I guess – you had mentioned, you made mention of this, that the polyester volumes are down 16%. What were they, or would they have been, without the drop in the POY third party sales?

Ron Smith: That POY third party sales made up about almost two-thirds of the decline, if you just look at it on an apples-to-apples basis. When you take Kingston Commodity Sales out, but obviously from a – that's a dangerous number to do. But just from a high level kind of order of magnitude, it was about two-thirds of the decline, September quarter over prior year's September quarter.

Chris Dechiario: Okay. And then in your – when you're looking at the second quarter and forward, obviously things, you talked about, are worsening significantly, even on your power side (ph). What sort of ballpark assumptions for how much worse than that are you expecting it to be, like, what does your current EBITDA guidance assume for how much of a worsening of the sales in polyester?

Ron Smith: Well, we typically don't talk about actual volume, forecast volume declines. But I think from an order of magnitude, we're saying, let me back up a step. I think if you look at the high levels, some of the CDP numbers, some of the apparel numbers, even in the bad times that we're talking about, apparel still is up 1%, I think Bill said in his comments. Or flat, or maybe slightly down. So, we're not looking at 20% year-over-year declines, that's not what we're expecting. But I do think what we're seeing right now is our volume still ran pretty strong up through the summertime, and we're seeing an inventory correction coming through the holiday season, which in our business, if you look back the last ten years, that's typically when the inventory corrections happen. So, we're seeing some slowdowns around Thanksgiving. October has actually not been too bad from a market standpoint. We're actually a little bit ahead of plan from a market standpoint in October, but we're hearing a lot about significant downtimes going through extended downtimes around Christmas and then we're also hearing some around Thanksgiving. So, from a volume standpoint, we are expecting this quarter to be significantly down. But, we think like everyone else, if this is just the inventory correction and the market will be down but it's not going to be down 10% or 20%, that volume should come back as we move into the third quarter a little bit.

Chris Dechiario: Okay, that's helpful. I guess, back to raw material prices, the delta between China and the US on the – I think it's the PTA prices, the polyester raw material prices, I think it had gotten up to $0.13 or so, if I remember, and usually around this time of year –

Ron Smith: Yes.

Chris Dechiario: - they're supposed to start coming down. What are they now? What is it now?

Ron Smith: I think now it's gotten back down to $0.10, and I think from a timing standpoint, the raw material prices have fallen significantly in Asia and we're working closely with our vendors here to make sure we keep that gap at a reasonable level. But, they're about $0.10 now. We expect that number going out into next year to be more in the reasonable, under $0.10 number, the $0.06 to $0.08, $0.07 to $0.08 type range.

Chris Dechiario: Right. So once you get through the second quarter, the third quarter, you really should, I mean all things being equal, see some margin improvement because you'll have some sort of lower raw material prices flowing through?

Ron Smith: Yeah, what we said, I mean, what we tired to put in the call, and I know it's difficult to get it out in a script like that, but what we try to put in the call is, you know, we're working through here in the third quarter, the higher priced inventory. Raw materials went up significantly in the July quarter, and we were not able to capture that because by the time we recognized that it was up, or started seeing from our vendors that it was going to be up, and worked a price increase through with our customers. Then, we turned around and the raw materials started falling in August. So, it's difficult to get a price increase through when they know 20 days later raw material prices are going to come back down. So, even though we said in June we were behind margin that had - the raw material price that had gone up, and we didn't get what happened in July, the purchase was in July and August. Well, those raw material prices are going to come through. They came through in September, and they're going to come through in full effect in October. So, we're going to have some margin deterioration in this quarter, specifically because we're selling out the entire price raw inventories. But, our strategy is very much one of, we did not get it all on the way up, we're going to recapture that margin on the way down. The margin in the third quarter is very important to – to our business, for going forward. This is our opportunity, we – as we ate it on the way up, we have to recapture it when it comes back down in order to have, in order for the (inaudible) to be a healthy (inaudible).

Chris Dechiario: Okay, and then one more and then I'll get back in the queue. Have there been any changes in your thoughts in terms of buying back bonds, I guess because of deterioration in the economy and problems in the credit markets and liquidity, any changes in terms of your thoughts on sort of how much bonds, if you wanted to, you were going to buy back, or the timing, or anything about it?

Ron Smith: Yeah. I think we went through and laid out in our K filing kind of the different buckets around restricted cash and excess collateral proceeds and then excess proceeds and stuff. So, I think, I guess this comment kind of doesn't talk about that, because that's a whole different subject. But around us just buying bonds out of the liquidity we have available to us now, I think we're going to sit on the sidelines a little bit. I think what we view, we may at some point in the future get back into that mode, but I think for right now, we feel good about where we're at and where we're going forward, but we're just really uncertain about the capital markets and where things are going to shake out. So, I think right now we're taking a breath on that and seeing where things shake out from the capital markets standpoint. Stepping back to the collateral issues where we've sold restricted cash, or we sold assets that are collateral, I think we will have some cash that drops into the excess collateral proceeds bucket, which means it's basically locked up long term, so we'll be evaluating that, as to what we do with that under the notes. The other piece of that information, I guess, would be as we sell – we've talked about the sale of China, we've talked about the sale of T4. Both of those sales would be non-collateral asset sales. So, neither one of those would go into that restricted cash bucket.

Chris Dechiario: Okay, thanks.

Operator: Thank you. Again, ladies and gentlemen, if you do have a question or comment at this time please press the 1 key on your touch tone telephone. Again, we'll pause as we wait for attendees to queue.

Unidentified Participant: Meredith, let me hang up, and you hit 1.

Ron Smith: Operator, do you want to provide instructions for getting back into the queue again? I think you might –

Operator: Yes, sir. Once again, ladies and gentlemen, if you do have a question, please press the 1 key at this time. We have a question from the line of Bryan Hunt. Mr. Hunt, your line is open.

Bryan Hunt: Thank you. I was wondering, if you all could go over your competitors that went away over the last couple of months, and what you feel like the real opportunities are, as that capacity comes out of the business? For maybe pounds, or dollars, or even a product standpoint?

Bill Jasper: Okay. Well, I – basically, there were three dye houses that were servicing the automotive and upholstery businesses, who exited the business over the last two months. We've certainly – we certainly have opportunity to grow our share of the market, and we're taking advantage of that opportunity, and we feel fairly confident we're going to be able to fill our dye house up, which is certainly going to be worth some benefit to us. And, there are a few other competitors in the business who are still viable, and they'll also certainly pick up some share, but this consolidation of the market's certainly not going to hurt our position there.

Ron Smith: Bryan, one thing I'll give you too, for context, is, when we did our presentation back in August and we filed our K around it, we talked about US sales by product. We had 18% was "other," you know, we had 11% POY, 40% polyester DTY, 31% nylon, we had 18% other. The over half of that other segment is our dye business, so they'll give you an order of magnitude of kind of the size of the business we're talking about.

Bryan Hunt: So, then I guess 9% of your total sales, what's the potential growth opportunity there? You think you can double it with these – with these bankruptcies, or do you think --?

Ron Smith: Yeah, again, we're not giving top line guidance, but you know, it's not that order of magnitude. I mean, I think that business was running at a level that was acceptable, but it wasn't a great business for us because what's happened with automotive, a lot of the automotive business formerly ran through that dye house. So, I think it would be getting us back more towards where we've been in the past, so it would be an improvement, but it certainly wouldn't be a doubling.

Bryan Hunt: Okay. And then looking at your CapEx, do you have any change to your CapEx guidance given where the economy appears to be going?

Ron Smith: Just from context, 10-12 is what we normally spend, and we gave guidance of I think 14-16 this year. I think we're running behind that rate right now, so I'm not going to adjust it down other than to say we're running a little bit behind where we expected, but I will say some of the big components of that was this project around the flexibility for Reprieve, and we're absolutely moving forward with that. So, I think there'll be something. I don't think we'll quite get to that point, but I'm not ready to revise down just yet.

Bryan Hunt: Okay. That's it, I appreciate it, thank you.

Ron Smith: Thanks, Bryan.

Operator: Thank you. Our next question or comment is a follow-up from the line of Mr. Dechiario, your line is open once again.

Chris Dechiario: Yeah, just about all mine have been asked now, but just out of curiosity, the asset consolidation optimization expense, the $1.2 million, where in the income statement was that?

Ron Smith: Almost all of it was in cost of sales.

Chris Dechiario: Okay. Okay. And you said that the Kingston is the asset that's in the assets held for sale?

Ron Smith: Well right now, you've got Kingston, which is $1.6 million, and you've still got the T4, until that gets sold, which is another [audio gap] million dollars.

Chris Dechiario: Oh. Okay. So, and – and – just – given the current environment and the current financing environment, you're still optimistic to be able – that you'll be able to sell Kingston so that within that one year period that you have?

Ron Smith: I think so. I mean, from an assets held for sale standpoint, us still having it classified there means we believe within a 12-year window, that we believe this is an asset that we're going to be able to sell. We have talked to several different people about the opportunities with all those assets or with some of those assets, so I think we will do something with them, you know. Will we get $8.5 million? I mean ultimately, that's the question. Or not, I mean, the $8.5 million we were surprised we had gotten that point from a negotiating standpoint. So I certainly wouldn't value them, if I tried to value them in a future model, at that level, but I mean I think we feel good about being able to sell it. The question is, what's the price going to be.

Chris Dechiario: Okay. And my last question, I presume that the Parkdale's outlook has changed similar to yours. Is there any change in your outlook for the level of – I mean, is it good to see a couple million in dividends coming from them in this quarter, have you changed your outlook on the full year, the range of dividends you might expect from them?

Ron Smith: No, the ratings we give on Parkdale is typically $6 million to $8 million. I think they had a great quarter. The distribution we got was not related to the quarter, that was related to prior quarters. So, they had, they had a solid nine-month run. I can't, the only reason I say nine months is because I don't remember what last December quarter was. But they've had a solid nine month run. I think that business, like every business today, we sell into the same, ultimately into the same spots, where they're sailing into, and I think there's an inventory adjustment coming down through retail. So, I would expect a similar decline in their – on the same kind of order of magnitude that we're looking at here in the December quarter, and I would expect like us, as we move into the March and the June quarter, I think it'll be down slightly from prior year, but I certainly don't think it'll be down the levels that we're looking at for the December quarter because of the inventory correction. I guess the only other thing to throw in there is, their business year-over-year, starting August 1st, they had the $0.04 per pound cotton rebate, or cotton subsidy – cotton rebate as a part of the farm subsidy bill. So I think that, that's going to help them be more competitive, and invest in assets as they move forward to try and be more competitive.

Chris Dechiario: Okay, thanks.

Ron Smith: Thanks, Chris.

Operator: Thank you. Our next question or comment is from the line of Alan Zwickler. Mr. Zwickler, your line is open.

Alan Zwickler: Morning. I may have missed this, but what is the status of China in terms of dissolving the joint venture and starting up?

Bill Jasper: Yes, as we've said before, we've got agreement with our joint venture partner to sell our interest back to them for $10 million. That agreement is still going through all of the regulatory and all of the government agencies that have to approve it, where we're close to the end of that chain and we would hope to have it done some time this quarter.

Alan Zwickler: Okay. And so, and the $10 million, then, you'd probably be plowing back into China for your own business, is that fair?

Bill Jasper: We would invest $3 million to $4 million of that back into China, and then take the rest back here to the US.

Alan Zwickler: Got it. Okay. And, would that money be available to perhaps buy in some of your bonds?

Bill Jasper: Yes.

Alan Zwickler: I mean, all things being equal?

Ron Smith: Yeah. That – those dollars were not collateral in the original collateral package. So, they're asset sales, but they're not asset sales of collateral, so they don't go to restricted cash, so we would have the ability to do – one of the things we can do with those dollars is pay down debt.

Alan Zwickler: Right, but you don't have any debt to pay down except for your bonds, is that correct?

Ron Smith: Correct. I'm sorry, we do have debt in Brazil, but that would not be – that's not what I'm talking about when I'm saying, "paying down debt." That debt in Brazil is already collateralized by the restricted cash in Brazil.

Alan Zwickler: Okay. So, so you have cash against that debt in Brazil, is what you're saying?

Ron Smith: Yeah, that's one of the things we talked about in the call was that –

Alan Zwickler: Yeah.

Ron Smith: Through this year we're [audio gap] out restricted cash in Brazil, because it's dollar-for-dollar, you've got a loan down and you've got a current and a long term debt down below, and you've got a current long term asset up above.

Alan Zwickler: I understand that, but when you look at your debt today, your debt on your balance sheet, how much of that debt relates to Brazil and how much relates to your bonds? Could you – could you clarify that?

Ron Smith: Yeah, there's $190 million of debt related to the bonds. There's zero under the revolver, there's about $12 million of debt related to the ICMS loans in Brazil, and then there's a few million dollars of other obligations.  I think one of them's a sale and leaseback for a building, and auto facility we have here.

Alan Zwickler: Oh, okay, because I had thought you said your debt was $190-some-odd million.

Ron Smith: No, 190 is the senior secured notes.  I may have misspoken.

Alan Zwickler: Yeah.  So, and but your total debt is over 200, is that correct?

Ron Smith: Correct.  When you take the current and the long term portion of our total debt, it's over, it's like –

Alan Zwickler: Right.

Ron Smith: 204, 203.

Alan Zwickler: Right, and the current relates to Brazil is what you're saying?

Ron Smith: Correct.

Alan Zwickler: Is that correct?  Okay.  And so, and where are your bonds roughly trading the last time anybody had any notion?

Ron Smith: Last period I saw was 73, back in – end of – end of October.

Alan Zwickler: Okay.  Great, thank you very much.

Ron Smith: Thanks, Alan.

Operator: Thank you.  There are no further questions in queue at this time.

Ron Smith: Okay.

Bill Jasper: Just a few closing comments.  Basically what we're saying is, this quarter that we're in right now is going to be difficult as reflected in our EBITDA guidance that we're giving. However, we – we do see recovery in the third and fourth quarters.  We're in a much better position today than we were a year ago.  We've got raw material flexibility so we can manage our raw material purchases better between here and Asia as that gap fluctuates.  We've consolidated over the last year to our most efficient assets, and we've put plans in place which allow us to run those assets near full even in times of lower demand.  There's – there's additional stabilization of the American market.  We've got a very strong distribution setup in this country and we feel very good about that.  We think that's a competitive advantage, and frankly we've got plans in China now with the establishment of UTSC, and exiting the joint venture where we basically stem those losses.  So, even though the economy's not in the best of shape right now, and assuming the economy continues to be slow but not turned very, very negative, we feel pretty good about the second half of our fiscal year.  We think we're going to see recovery of our margins, and we think our EBITDA numbers are going to get back to where we expect them to be.  So, even though it's a negative time right now, we've got a fairly strong business going forward.  And that's it.

Ron Smith: Thanks, guys, for calling.

Operator: Ladies and gentlemen, this does conclude today's conference. We again thank you for your participation. You may all log off and disconnect at this time. Good day.