

UNIFI, INC.

Moderator: Ronald Smith
February 5, 2009
9:00 am CT

Operator: Good morning. My name (Lynn) and I will be your conference operator today. At this time, I would like to welcome everyone to the Unifi 2nd Quarter Earnings conference call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number 1 on your telephone keypad. If you would like to withdrawal your question press the pound key.

Thank you. I will now turn the conference over to Mr. Ronald Smith, Chief Financial Officer. Please go ahead, sir.

Ronald Smith: Thanks operator and good morning everyone. Joining me for the conference call today is Bill Jasper, 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 second quarter conference call link found on the homepage. 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 first advise 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 10Qs and 10Ks regarding various risk factors that may impact these results.

Before we review the preliminary operating results for the quarter, I would like to turn the call over to Bill, who will provide a brief overview of the market conditions that were impacting - that are impacting our results. Bill?

Bill Jasper: Thanks, Ron and good morning everyone. The operating conditions that we and every other company endured during second quarter were among the harshest anyone has seen in decades as consumers cut spending significantly during the important holiday season.

The market conditions in each of our business segments have deteriorated. And I'll take a few moments to give you some background on each. Apparel retail sales declined about 7% in the fourth quarter of annual 2008 compared to a year ago.

And many experts believe that retail sales would have declined even further had it not been for the deep discounts offered to move merchandise. Retail apparel inventory increased between 2% and 5% every month from June 2008 through October.

And apparel and hosiery producers reported that their inventory was up 9% compared to year-ago levels. With this much retail and finished good inventory available, production at fabric and apparel mills declined 20% and 24% respectively during the fourth quarter compared to a year ago.

As a result, Unifi fiber sales into apparel segment were down about 30% in December quarter as compared to the prior year. Going forward, industry experts expect apparel retail sales to be 10% to 12% lower year-over-year for the next six months before a gradual recovery.

Therefore, we can anticipate our sales will settle at around 90% of last year's level once the downstream inventories are depleted and consumption at retail begins to rebound.

One positive note to the apparel story continues to be imports of synthetic apparel from the CAFTA region, which were up 13% in 2008 compared to the prior year.

Many U.S. retailers saddled with significant inventories imported from Asia have become very conservative in the sourcing decisions and are taking

advantage of the shorter lead-times offered by the CAFTA region to better manage inventories and deliveries.

Consequently, our sales into the CAFTA region were up 13% for the year. And we expect continued strength and growth in sales to the region as more apparel production is shifted from Asia into the region to reduce the sourcing lead-times.

In the automotive segment, U.S. sales of cars and light trucks declined 18% in 2008. As with apparel, the decline in production accelerated throughout the year, ending with a 26% decline in the December 2008 quarter compared to 2007.

In addition, auto dealers currently have about 95 days of inventory on the lots, which is about 50% higher than normal. This will further drive down production in 2009, essentially resulting in a 10 month production year at reduced rates.

This situation, however, has less impact on Unifi than in the past as our dependence on the automotive segment has been reduced over the last several years. This segment accounts for just 6% to 7% of our sales revenue today versus 12% to 14% just a few years ago.

In the furnishing segment, new home sales plunged in December, capping the worst year for sales since 1982.

As a result, year-to-date shipments of upholstered furniture are down nearly 15% from year-ago levels, which has led to a similar decline in production at furnishing mills.

The carpeting sales into the furnishing segment were down 18% during the December quarter as compared to the same period of the prior year.

To summarize, the primary challenge to our supply chain over the next couple quarters is excessive downstream inventory.

Retail inventories of apparel, home furnishings and autos are high and they are being consumed at reduced rates noted earlier. Until our supply chain works through this inventory, new orders for the company may improve slightly but will continue to be below year-ago levels.

I'll comment on our strategies for the second half of the fiscal year at the end of the call. But for now I'll turn the call back over to Ron who will take you through our preliminary results for the December quarter. Ron?

Ronald Smith: Thanks, Bill. If you're following along from the website presentation, we'll begin our comments on Slide 3. Net sales for the current quarter were \$125.7 million, a decrease of \$57.7 million over the prior-year December quarter.

We experienced dramatic sales declines in November and December in response to the high inventory levels and rapidly deteriorating market conditions Bill outlined earlier.

In addition, prior-year sales included approximately \$7 million of sales from our commodity POY operation in Kinston, NC which was closed in December 2007. I'm sorry, in the December 2007 quarter.

The company is reporting a net loss including discontinued operations of \$9.1 million or 15 cents per share for the quarter compared to a net loss of \$7.7 million or 13 cents per share for the prior-year December quarter.

The quarter-over-quarter decline is a result of a 270 basis point decline in gross margin, which was negatively impacted by \$3 million of higher priced raw material purchases from the first quarter moving their way through the inventory system and the effects of reduced volumes on our cost structure.

Nevertheless, we expect margin improvement through the second half of the fiscal 2009 as raw material cost is stabilized below the peak that we saw in July, and our volume and cost strategies are beginning to take effect.

SG&A expenses for the quarter were \$9.3 million which represents a \$1 million improvement over the prior-year quarter after eliminating the effects of the \$1.7 million severance charge in the 2007 quarter.

During the year our SG&A expenses are running well below budget as we have taken steps to eliminate non-critical spending while continuing to fund our premium value-added product strategies.

Turning to page 4, net sales for the first half of the fiscal year were \$294.7 million, down \$59.2 million compared to the prior year's net sales of \$353.9 million, which included approximately \$19 million of sales from the now closed Kinston facility.

Through the September 2008 quarter the loss of sales from the Kinston facility were masked by higher volumes and price over the prior year. During the December 2008 quarter, volumes declined drastically in November and December and the polyester price began to move down as the raw material price dropped considerably.

The company is reporting a net loss including discontinued operation of \$9.7 million or 16 cents per share for the first half of fiscal 2009 compared to a net loss of \$16.9 million or 28 cents per share for the prior-year period.

Included in the results for the six months of fiscal 2009 is a net pre-tax payment of \$5.2 million related to the sale of certain real property and related assets in Yadkinville and 3.6 million of income from the company's share of its earnings from its equity affiliate partners.

SG&A expenses were 6% lower in the first half of fiscal 2009 compared to a year ago, absent the 5.3 million in executive severance charges and deposit write-offs recorded in SG&A for the first half of fiscal 2008.

Turning to page 5, quarter-over-quarter total volume declined 32% on a consolidated basis while overall pricing improved 1%. Compared to the September quarter total volume declined 20% on a consolidated basis and the overall price declined 5%.

Within our segments, polyester volumes decreased 33% compared to the prior-year December quarter as a result of volume declines both domestically and in Brazil.

In comparison to the September quarter, polyester volume decreased 19% despite a relatively strong shipping month in October and overall pricing declined 4%.

Year-over-year sales on our PVA products have been flat as the supply chain appears to temporarily be focused on the sale-through of existing items. The finished inventory at hosiery mills and the resulting decline in production at knitting mills led to declines in our nylon volume.

Quarter-over-quarter, nylon volumes decreased 30% and overall pricing declined 4% due primarily to a shift in mix. Compared to the September quarter, nylon volume decreased 28% on a consolidated basis and overall pricing declined by 3% due to the same mix shift.

Now we'll turn to the balance sheet highlights that you can find on Slide 6. Cash-on-hand at the end of the December quarter was \$12.6 million down \$7.8 million compared to the end of the September quarter.

The primary components of the change in cash were \$6.8 million of proceeds from asset sales offset by working capital uses, \$11 million semi-annual interest payment and the \$2.5 million effect on cash in Brazil from the strengthening of the U.S. dollar against the Brazilian Real.

At the end of the December quarter, total cash was \$32.4 million which represents a \$15.3 million decrease from September. Total cash at the end of December included \$11.1 million of restricted cash in the U.S. and \$8.7 million of restricted cash in Brazil.

The primary components of the change in total cash were the previously noted \$7.8 million decline in cash-on-hand as well as approximately \$4 million of usage for CapEx and the payment of the Brazilian ICMS tax incentive loans that matured during the quarter.

Total long-term debt as of the end of December was \$194 million, a decrease of \$3 million from September.

As we move through these difficult times, we're confident in our capital structure and our ability to continue pursuing our established strategies while the supply chain works through the destocking issues.

We have significant cash-on-hand and a stable long-term capital structure. Our senior secured notes do not mature until 2014 and they do not contain any ongoing financial maintenance covenants.

Our revolver doesn't renew until May of 2011 and only have financial maintenance covenants if our availability gets below \$25 million.

At the end of December we did not have any borrowings under our revolver and our availability was \$76 million. Nevertheless, we are going to increasingly focus on the liquidity and cash generation until the economic conditions start improving noticeably.

Over the next six months we're going to especially focus on adjusting our working capital requirements to meet the current run-rate of our business. We plan to continue challenging all non-essential spending, both capital and expense.

And at this time we do not anticipate buying back any of our senior secured notes and open-market purchases. However, it is likely that we will utilize a portion of our restricted cash to tender for a portion of our 11.5% senior secured notes at par.

Under the terms of the note indenture agreement, if proceeds from the sale of collateral remain in restricted cash for 360 days they become excess collateral proceeds.

And the only use for such excess collateral proceeds is to remain in the first priority collateral account earning minimal interest or to use the funds to make a tender offer for a portion of the notes at par.

At this time we have approximately \$9 million of excess collateral proceeds which we will likely utilize to tender for a like amount of bonds at par over the next quarter. Net working capital balances have decreased \$4 million from the end of the September quarter.

The primary driver of the working capital decrease were a volume related decrease in net receivables and the impact of the U.S. dollar to Brazilian exchange rate.

Inventory levels remained unchanged despite the volume reductions as the dramatic reduction in demand for our products in the November and December did not allow us to react quickly enough.

As we moved out of the quarter, we began reducing finished inventories through our holiday shut-down and we have begun executing plans to significantly reduce our overall inventory over the next two quarters.

By the end of the fiscal year, we expect our receivable balance to increase slightly from higher sales. But we expect a substantial reduction in inventory to create a net working capital improvement of \$8 to \$10 million.

Finally, on the balance sheet it's important to note the impact of the changes in the U.S. dollar to Brazilian Real exchange rate. At June 2008 the exchange rate was 1.59 Real to the U.S. dollar.

At the end of December 2008 the Real had devalued to 2.34 Real to the U.S. dollar, which resulted in a charge - I'm sorry, which resulted in change to accumulated other comprehensive income of almost \$30 million.

Going forward economists expect this impact to partially reverse as the Real strengthens, but we do not expect it to return to the 1.59 exchange rate level within the near future.

Turning to slide 7, our 34% share of Parkdale America generated approximately \$600,000 of income during the December quarter and \$4 million of income year-to-date.

We have received \$2.1 million of distributions from Parkdale America during the first six months of fiscal 2009.

Starting Slide 8, the company reported adjusted EBITDA of \$2.1 million which is within forecasted range of \$2 to \$4 million provided in our December 19 press release.

The adjusted EBITDA for the quarter excludes \$2.1 million of expense related to the completion of several projects designed to optimize our asset configuration and the commercializing of PVA products. Each of these projects have a near-term payback and is critical to the accomplishment of our long-term strategies.

Adjusted EBITDA for the six months of fiscal 2009 is \$16 million. In light of the significant volume declines we have experienced and the minimal volume improvement we now see over the next six months, driven by both reduced consumer spending and the draw-down of high downstream supply chain

inventories, we are now forecasting EBITDA for the fiscal 2009 to be in the range of \$20 to \$30 million.

Within the quarters, we expect the adjusted EBITDA for the March 2009 quarter to be similar to the December 2008 quarter. And we expect improvement in the fourth quarter as planned operational and cost improvements take effect and we begin to see slightly improved volumes.

It's important to note that we're providing these forecasts and related assumptions despite the significant degree of uncertainty we are all seeing in the economic environment.

These estimates are our best guess at this time but we do not believe - I'm sorry, but we do believe our forward-looking view will be somewhat clearer from the investor call in March, specifically as it relates to the volume assumptions.

Before I turn the call back over to Bill, I'd like to provide a brief update on China and some key dates for this quarter.

The company is very close to finalizing the definitive agreements required for the sale of its 50% ownership interest in Yihua Unifi Fibre Industry Limited, YUFI to our partner Sinopec Yizheng Chemical Fiber.

YCFC's parent company has agreed to purchase the company's ownership interest in YUFI for a revised purchase price of \$9 million which resulted in an approximately \$1.5 million impairment charge in the December quarter.

From here YCFC requires board approval to sign the contract and once signed local provincial approval is required. As with any negotiation of this type,

there can be no assurances that this transaction will close, but our current timeline calls for closing within the next 60 days.

Turning to the March quarter, I would like to remind everyone of a couple of key dates coming up. We expect final results for the December quarter to be filed with the SEC and our 10Q tomorrow.

And our quiet period for the third quarter will begin on March 27 and extend to our earnings release conference call, which is currently scheduled for April 30. With that I'd like to turn the call back over to Bill for a few final comments.

Bill Jasper:

Thanks, Ron. We're certainly facing challenges. There's no question about that. However, we have confidence that the fundamental improvements we made to our underlying business in the last year and additional improvements planned in the short-term will help assure that we weather this turbulent times.

Our second quarter results were negatively impacted by high priced inventory flowing through our operations, and more importantly, a fall off in sales much greater than retail performance would indicate. For instance, our largest segment, apparel, was off 7% at retail in the last quarter.

Our sales into that segment were down about 30% while we actually gained share in that market. While a high price inventory of raw materials will taper off in the current quarter, we anticipate sales will continue to be negatively impacted by high downstream inventories for an additional four to six months and then settle at levels more consistent with retail sales.

In this environment, we will continue to cut and control cost, accelerate operation improvements in progress, drive increased market share and aggressively reduce our working capital.

In fact, as previously noted, we expect our fiscal fourth quarter to be measurably better than the third quarter even with comparable volume levels due to several million dollars additional cost in operational initiatives take an effect.

By doing so we expect to maintain positive free-cash-flow through the end of the fiscal year. We will also continue to drive our core strategies which have not changed. We've made tremendous progress in improving the fundamentals of our business over the last year.

For example, should volume levels settle at 10% below last fiscal year, our EBITDA rate would be comparable to last year. Based on our current plans for the remainder of this fiscal year we are cutting our SG&A annualized run rate by \$8 million or 18% versus fiscal 2007 while nearly doubling our future-looking R&D and marketing efforts.

We have significantly reduced manufacturing costs through a consolidation of our beaming operations in Yadkinville and operational efficiencies in all our plants. We're seeing improved margins driven primarily by mix improvement and rigorous raw material purchasing practices. And we have increased our share in the North American market.

Through these efforts we have improved our operating performance at various volume levels by 15% to 20% versus last fiscal year. And we have several additional business improvement programs in progress which could add millions of dollars annual improvement to our bottom line.

These programs are being driven by an organization that is positive. We can't control consumer confidence or tightened credit. What we can control is the continuous improvement of our costs, operational efficiencies, market share and product mix, and that's exactly what the company's doing. With that I would now like to turn the floor over for questions. Operator?

Operator: Thank you. At this time I would like to remind everyone in order to ask a question press star then the number 1 on our telephone keypad. We'll pause for just a moment to compile the Q&A roster.

The first question comes from the line of Peter Finelli with Riva Ridge.

Peter Finelli: Hey guys. Good morning. Why don't you just confirm the EBITDA forecast? The \$20 or \$30 million was that for the back half of the year or is that a full-year number?

Ronald Smith: That's the full-year number.

Peter Finelli: Okay. And also, on the free cash flow guidance, you said free cash flow positive through the end of the fiscal year. So again, is that, just to confirm, is that back half or is that a full-year free cash flow positive number?

Ronald Smith: That one is a back half number including the working capital improvement we were talking about.

Peter Finelli: Okay. And then lastly, the \$9 million of restricted cash that's earmarked for the bond tender. You said that was coming up in the next month or is that coming up in the next, you know, three months? Just want to get better timing on that.

Ronald Smith: It's already become excess collateral proceeds. I think we announced that back in December when we did that press release. We have another (chance) that could come up in March.

We don't think we're going to add any to what had - the 8.8 we had. But we could be a couple of hundred thousand dollars off there. So once we get, you know, comfort around that I think that would be at the point when we would do the tender for moving forward.

Peter Finelli: Got it. Okay, thanks guys.

Ronald Smith: Thanks.

Operator: If you would like to ask a question at this time, press star 1.

Your next question comes from the line of Mark Fraker with ISI Capital.

Mark Fraker: Hi guys.

Ronald Smith: Hey Mark.

Mark Fraker: Hi. Can you give a little more color on PVA and by segment? And, you know, how's that doing? That's sort of, you know, the future we're looking to. And just any color you can give on that.

Ronald Smith: Yes. I think from, I mean, the view I'm giving - obviously, Bill can chime in here. But, you know, we had said previously we expected PVA to increase 50% this year. I think what we're seeing over the first - really of the last quarter has been a flattening out of PVA.

So it'll probably see growth but it won't be a significant amount of growth. I think as far as additional color and I think we still feel real strong about the product offerings we have out there. We just lost another pretty staple product that we think's going to be pretty significant going forward.

But I think the attitude we're seeing right now with retail is, you know, they got burned by these long supply chains and the excess inventory they had.

So they're trying to make sure they get all their sell-throughs done with the existing items they have before they go developing new product. So I think what we've seen is a leveling off and then it'll take back off as we move through, you know, the next 18 to 24 months.

Bill Jasper: Hey, Ron.

Ronald Smith: Go ahead, Bill.

Bill Jasper: Let me answer that. You know, basically as we accept the apparel retail's off about 7%, our business was off about 30%. If you look at our PVA sales into apparel they're about flat.

And when I mentioned a mix improvement driving improved margins, it's primarily the fact that our PVA product is staying relatively flat while our more commodity business has been falling off.

So we're certainly encouraged by that. And certainly should retail turn around or as this inventory goes through the system, we'd expect to see some pick-up in our PVA sales.

Mark Fraker: I guess what had happened earlier there was just a shift in the channel between like a REI and (Catagonia) to, you know, Wal-Mart kind of thing. Is that still going on?

Ronald Smith: Yes, I think that is from looking at the data. But I think it's a little misleading to say all of our PVA was going in that. I think, you know, one of our largest PVA programs is in Wal-Mart. So we do have quite a bit in that merchant as well as, you know, specialty and department.

But I definitely think, you know, the very nature of PVA, some of the products, you know, is targeted more towards the higher-end specialty stores.

So it's had some impact but is certainly isn't a situation where all of our PVA is up that level. You know, and none of it's down in mass because there's quite bit down in mass.

Mark Fraker: Okay.

Ronald Smith: I'll add one more thing, too. The comment we made around some of the nylon, that the negative shift in mix around nylon was specifically around a PVA program in nylon that got delay, you know, that there was as inventory reduction that happened there in the December quarter.

I mean, we expect that one to come back. But that one - you know, that's the perfect example of how the PVA can impact an individual segment we have.

Mark Fraker: Okay. That answers my question. Thank you.

Ronald Smith: Thanks.

Operator: In order to ask a question press star 1.

And the next question comes from Jonathan Sacks with Stonehill Capital.

Jonathan Sacks: Hi guys. I just had a handful of smaller questions. Obviously the JV is winding down and we hope to get the proceeds from that. But I recall there was going to be a \$3 for \$4 million new investment in China, I guess with our own entities. Has that been made yet or is that still to come?

Ronald Smith: That will come as part of the closing process. One of the investments that new JV is making is in some of the inventory - some of our PVA inventory that's setting currently in the JV.

So that investment will come over the next probably two quarters. And we will - you know, we're excited about where that's at, where it's headed. We had our license here over the last couple of weeks. We're up and running.

So we've got everything we need at this point in time to get started. You know, we're really just waiting on - we actually had a team over in China this week going negotiations. So we're just waiting on the last-level approvals to move through there and then we'll be up and running.

I think even though we haven't gotten to that point, you know, the commercial organization is already set in the place. And it's doing quite a bit of work today.

It's actually moving some apparel through the JV - most of the PVA apparels for the JV today. So we're there and we're up and running. It's just going to be a matter of flipping from a joint venture sales to a Unifi sale once we get this closed.

Jonathan Sacks: Okay. But we're still talking roughly maybe \$5 million of net proceeds, receiving \$9 and reinvesting \$3 or \$4, something like that?

Ronald Smith: Yes. And I think that - yes. The first part of that will come pretty, you know, over the next little bit. There will be - you know, as that business grows there could be additional working capital requirements and that's kind of the range, the three to five range we gave.

Jonathan Sacks: Okay. And then can you just remind me what assets you have for sale, if any? Do you still have a Kinston asset that was for sale and did the contract go through?

Ronald Smith: Yes. A little bit of background on that. Last March, when we announced we were exiting the - it was March 2008 when we were exiting the Kinston facility. Remember that was a transaction where basically DuPont paid us \$3 million and we paid them \$3 million back for remediation of that site.

So that got us off the site and got us from having to deal with any of the environmental issues that we originally assumed as a part of the original purchase from DuPont.

So it was a rather complex transaction. And at that time we had said, you know, we don't really have any more significant assets for sale around that business because one of the likely buyers was - it required a three-way negotiation.

And the three-way negotiation just wasn't moving at that point in time. So we went ahead with the DuPont transaction. Then come June that third party came it. We reached an agreement and we were moving forward. And I think

the agreement was - these will be nominal numbers-but it was about \$12 million of proceeds.

And we were going to have to give four of those to DuPont. So we were going net back about 8. We actually signed a contract with that third party. Then in August or early September, we were notified that they were not moving forward with that contract.

So our assets are still there. They're still held for sale. We have the right to sell those under the agreement we made with DuPont between now and March 2010.

We will not find another buyer that fits that profile as well as the third party we had. So they're not - you know, I certainly wouldn't go out and make an estimate that they're worth the same amount that we entered that contract for. But they are - I mean, those are assets that are valuable assets. And we've gone through the process.

We've got them listed with a broker. He's talked to interested parties. So, you know, we're moving along with that. And I think they're on the books for about \$1.5 - \$1.7 million dollars today. So, you know, we obviously, just under the accounting rules, we think they're worth that or more than that.

Jonathan Sacks: Okay.

Ronald Smith: Other than that, from an asset sale-for-sale standpoint, we currently don't have any other plans or any other significant assets that we have listed for sale.

Jonathan Sacks: And on Parkdale, I know you don't have control over what dividends come out, but you (unintelligible) how that business is doing and to what, you know,

what expectations or thoughts you have about potential dividends coming from Parkdale?

Ronald Smith: If you go back over the history of Parkdale, it's been - I think if you look over the nine or ten years we've been in that joint venture, it's averaged kind of \$8 to \$10 million. We've already gotten 2.1 this year because it had a very good second half. It had a very good January to June in 2008.

You know, our expectations for dividends, you know, we don't have control. But our expectations for dividends are that that we would continue to see a dividend flow coming off that investment.

Last year the dividend flow wasn't as large as it could have been, kind of the discretionary dividend wasn't as large as it could have been because they were doing some modernization and some CapEx.

But, you know, that's completed at this point in time and we would expect that to start back up. You know, ultimately what is going to happen, you know we model - you know, from our modeling standpoint, we model in that \$6 to \$8 million dollars on an annual basis.

And it just depends on what the operating results are. As far as the operating results, Parkdale had, without going into how their quarters were or how their months were they had a similar trajectory so what we had. They had a solid - you know, their October was obviously better than their December was I guess is the best way to put that.

And they're, you know, they're selling quite a bit into the apparel supply chain. So I would assume they're seeing the same phenomena we're seeing

where retail is off, you know, 7 to 10%. But fabric and fiber is off 25 to 30% as people work through this destocking issue.

Jonathan Sacks: So would you still be expecting a significant portion of this year's dividend to come basically in the next six months before June or what is timing of that?

Ronald Smith: Typically what happens there is once the audit's done then the March or April board meeting - I guess the April board meetings is when - but again it could or could not happen. We have very little control over that.

But typically that's the time frame. If a discretionary dividend happens it's going to be some time in that fourth quarter. When say discretionary, there is provision in the agreement that a certain percentage of net income gets paid to the partners as a part of the operating agreement.

I think it's 30% of net income gets paid out because it's an LLC under the theory that you're going to have to pay taxes on this income.

So that's what that \$2.1 million payment was. It was the dividend as required by the agreement. But the discretionary one, typically that's part of the board process.

Jonathan Sacks: Sounds right. So in Unifi's fourth quarter, the June quarter?

Ronald Smith: Correct. I'm sorry, yes.

Jonathan Sacks: Yes, okay. And then could you just comment a little bit on CapEx, you know, outlook for the next year and whether that's changed at all?

Ronald Smith: Yes. I think for us - I mean, we had a project that was very important to our PVA in Yadkinville for around our spending flat. It opened up quite a bit flexibility around PVA as well as opened up some sourcing options for the raw material for that plant.

So I think that's going to move forward. And I think we gave \$14 to \$16 million as our guidance for this year. We probably won't spend all \$16 million but it won't be significantly different. As far as forward...

Bill Jasper: As far going forward, Ron, I'd expect we'd be more like - more historic levels maybe \$8 to \$10 million range. That's about what we've been doing.

Jonathan Sacks: And then - I'll just ask two more questions. I don't want to hog the line but I'm not sure if there's others in queue. If you could just comment on how much pricing power you have? And you mentioned aiding market shares and sort of are you competitors experiencing the same dynamics?

Ronald Smith: It's hard - ask that question again, please. I'm sorry.

Jonathon Sacks: Sorry. I just - I guess I'm wondering, how much pricing power does that company have? And presumably your competitors are dealing with all the same industry headwinds that you Unifi is.

Ronald Smith: Yes, that's very accurate. And, you know, if you look at when raw materials, especially in polyester, went up significantly last summer, you know, we were able to capture some of that going up but certainly not all of it.

Now as they're coming down, you know, we're trying to get back to maybe where we were before last summer. And I think there's a good chance we'll be there.

As far as our share gain, we're primarily targeting imports with some lower cost POI that we're purchasing from India. And we've seen some success there.

Jonathon Sacks: Thank you so much. Appreciate it.

Operator: Your next question comes from the line of Michael Snyder with MacKay Shields.

Michael Snyder: Good morning guys.

Ronald Smith: Morning.

Michael Snyder: I think Jonathan asked a bunch of mine. But could you talk a little bit more about inventory levels in the channels and kind of what - any assumptions for each end market to sort of clear so that, obviously, production levels could start increasing?

And then also maybe tie that into, you know, your raw material costs and when you really think you'll get the full impact of lower raw material costs in your margin?

Bill Jasper: That's a multi-faceted question.

Ronald Smith: Mike, I start with the raw material one. I we said there was probably a \$3 million overhang from the first quarter into the second quarter because of that higher price raw material inventory. The price has dropped and the low point was in December.

So we've had - you know, we still do have some overhang coming into the March quarter. And, you know, that overhang will be \$1.5 to \$2 million. And we had a little bit of additional - and, you know that's probably important, too.

In our projections for the fourth quarter, because we had shutdown time in November, both in November and December, we had quite a bit of, you know, fixed cost that will capital out from the balance sheet.

You know, because the low utilization rates, you know, required us to put those up on the balance sheet. And we've probably got another \$1.5 to \$2 million that's coming through here in the December quarter from a kind of unusual event standpoint.

And when you add - when you take that \$1.5 to \$2 million plus the \$1.5 to \$2 million of the final bit of that higher priced inventory, you know, rolling through our accounting system that is putting a negative pressure on our forecast for the March quarter. And I think as far as our margin piece of it I mean I guess that's your...

Bill Jasper:

All right. I guess the main question I heard was the downstream inventories and what do we anticipate there. You know, based on all the information we have, I mean it's clear that there's excessive downstream inventory in both apparel and automotive.

Our best view right now, based on retail being off more like 10 to 12% over the next six months, is it's going to take four to six months for this inventory to work its way through the system. But we expect to see our volumes increase gradually over that time.

And we'd expect that they're going to settle at about what retail is. On the automotive side, you know, frankly automotive system fell off more than 30% for us over the last couple of quarters is basically OEMs stopped producing all together.

We're basically expecting a ten month production cycle here because they've been about two month too much inventory. And that production cycle will be at lower purchase rate.

So, you know, we may be looking at-you know, I don't want to give any exact number-but certain, you know, 10, 15, 20% less than last year, though our dependence on that has really shrunk quite a bit. It's about half as much of our business as it used to be.

Ronald Smith: Did that answer your questions?

Michael Snyder: Yes. I know it's a hard, you know, hard to pin down. But obviously that's sort of the, you know, the key to improved profitability for you guys is, you know, hopefully getting through that excess inventory so that not only can you obviously increase volumes, but you can benefit from lower, you know, raw material cost in your inventory.

Can you also talk a little bit about, you know, receivables quality? Any concerns you have on the horizon, you know, from your larger customers I guess?

Ronald Smith: Yes. We're keeping a close eye on that. I think from, you know, from a general standpoint our aging's deteriorated slightly.

I think if you look at the days in the current and one to 15 bucket and compare it to the past due greater than 15 days, we probably had \$2 million, \$2.5 million that have slipped out of that current bucket over into the past due bucket. So we have seen some slowdown in payments.

But, you know, we're working real closely with those guys. I mean, they're going - they're seeing at fabric mills the same issues that we're seeing. So, you know, we're redoubling our efforts to make sure that we've got everything under control.

I think if - you know, the two points I'd make on that, you know, we don't have that customer - other than probably Hanes brand. You know, we've disclose Hanes brand at different points in time have been greater than 10% of our business. Other than Hanes brand, we don't have that 5 to 8 to \$10 million customer out there anymore.

You know, we've saw some significant bankruptcies over the last, say, five years of Unifi's history.

So, you know, we're rather diversified. We're spread out. And, you know, of our top five customers, you know, those guys are in fairly good shape. You know, the five largest exposures I guess is probably a better way to put it.

Those guys are in pretty good shape. But we're working closely with those guys. And we've even started taking some credit insurance from some of our export sales into the region. So, you know, we're doing quite a bit on that front. We're definitely keeping an eye open with where we're at today.

Michael Snyder: Thank a lot.

Operator: Your next question comes from the line of Jay Garrett with AHAB Capital.

Jay Garrett: Hey guys. Just a quick question. I mean, you somewhat commented on it regarding the raw materials and the inventory sell-through. But I'm just having a hard time building to your 20 to 30 EBITDA guidance. I mean, you're at 16 now.

I mean, you somewhat had the perfect storm of selling-through higher cost inventories as well as end-market weakness. I mean, obviously the raw material picture's going to get a little better.

Could you just maybe talk about what type of end-market assumption you have that you're taking to get to that number?

Ronald Smith: Yes. I think the - you know, back in our comments we said we feel like the December quarter was off 7%. But in the December quarter we had a very - we had a relatively strong shipping month in October.

And then we had two really bad quarters. I'm sorry, two really bad months in November and December there. As far as our assumptions for going forward, we actually see retail being off more than 7%. We see retail being off 19-12%. And that's through our conversations with our customers and through our conversations with the brands and retailers.

You know, we have a large - our largest show of the year, our largest kind of downstream marketing show of the year, is in January and August. Well we were just there two weeks ago. In our view from conversations, you know, collectively with those guys is, you know, we're going to be - they're looking at down 10 to 12%.

They don't know - you know, I think at the end of the day we talked about, you know, they have the same uncertainties that everybody else does. Because, you know, they don't have the power to pull consumers in at the end of the day. It's what consumers are willing to spend.

So they were fairly uncertain. But, you know, the numbers that kept getting thrown around were - you know, there were significant discounts offered to drop volume in the holiday season and start moving inventory.

That inventory or that volume was going to - that was going to go away. So they were expecting less 7% - sorry, a further deterioration from 7% over the next quarter.

Some of them thought it's going to take two months, some of them though four months, some of them though six months. What we took that to say and built into our forecast was, you know, it took six months for inventory to build.

We talk about the June through October for inventory to build. And then volume fell off. So we're expecting another six months of more like the November, December levels. Maybe a little bit better than that. And we're expecting it to improve slightly - actually to be down more in March and to improve slightly in June.

So that was the basis for our projections. You know, that came out with the number. And then from that we added in hey, we're running a little bit better than what we forecasted already in January.

You know, we've got these initiatives, these cost initiatives, that Bill talked about that we see coming into effect. You know, but they're not going to come into effect immediately. There's going to be some time lag on that.

So, that's our view of having more like a December quarter in March and then having a better quarter in June.

And then the last I'll say is that the comment I made to Mike earlier about that, you know, when you added those numbers up, the \$3 to \$4 million dollars of prior quarter kind of overhand cost rolling into this quarter because, you know, that inventory that was sitting there at the end of December had those costs in it.

You know, that's probably the big components on how we got to our forecast.

Jay Garrett: All right. Well thanks. Good luck.

Ronald Smith: Thanks.

Bill Jasper: Thanks.

Operator: At this time, there are no further questions. I would like to thank you for your participation. That concludes today's conference call. You may now disconnect.

Ronald Smith: Thank you.

Operator: Thank you.

END