UNIFI INC
Form 10-Q
November 07, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 28, 2008

OR

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

For the transition period from __________ to__________

Commission File Number: 1-10542

UNIFI, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer: o	Accelerated filer: þ	Non-accelerated filer: o (Do not check if a smaller reporting company)	Smaller reporting company: o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o Noþ

The number of shares outstanding of the issuer s common stock, par value $.10 per share, as of November 3, 2008 was 62,057,300.

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Part.1 Financial Information
Item.1 Financial Statements

UNIFI, INC.
Condensed Consolidated Balance Sheets
(Amounts in thousands)

	September 28, 2008 (Unaudited)	June 29, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,396	$ 20,248
Receivables, net	95,247	103,272
Inventories	127,994	122,890
Deferred income taxes	1,962	2,357
Assets held for sale	3,808	4,124
Restricted cash	7,308	9,314
Other current assets	4,290	3,693
Total current assets	261,005	265,898
Property, plant and equipment	843,616	855,324
Less accumulated depreciation	(675,771)	(678,025)
	167,845	177,299
Investments in unconsolidated affiliates	71,950	70,562
Restricted cash	19,989	26,048
Goodwill	18,579	18,579
Intangible assets, net	19,607	20,386
Other noncurrent assets	11,698	12,759
Total assets	$ 570,673	$ 591,531
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 43,897	$ 44,553
Accrued expenses	26,061	25,531
Income taxes payable	832	681
Current maturities of long-term debt and other current liabilities	7,729	9,805
Total current liabilities	78,519	80,570
Long-term debt and other liabilities	198,518	204,366
Deferred income taxes	657	926
Commitments and contingencies		

Shareholders equity:				
Common stock		6,196		6,069
Capital in excess of par value		28,838		25,131
Retained earnings		253,818		254,494
Accumulated other comprehensive income		4,127		19,975
		292,979		305,669
Total liabilities and shareholders equity	$	570,673	$	591,531

See accompanying notes to condensed consolidated financial statements.

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UNIFI, INC.
Condensed Consolidated Statements of Operations
(Unaudited) (Amounts in thousands, except per share data)

	For the Quarters Ended September 28, 2008	For the Quarters Ended September 23, 2007
Net sales	$ 169,009	$ 170,536
Cost of sales	155,584	159,543
Selling, general & administrative expenses	10,545	14,454
Provision for bad debts	558	254
Interest expense	5,965	6,712
Interest income	(913)	(826)
Other (income) expense, net	(561)	(1,006)
Equity in earnings of unconsolidated affiliates	(3,482)	(178)
Write down of long-lived assets		533
Write down of investment in unconsolidated affiliate		4,505
Restructuring charges		2,632
Income (loss) from continuing operations before income taxes	1,313	(16,087)
Provision (benefit) for income taxes	1,885	(6,931)
Loss from continuing operations	(572)	(9,156)
Loss from discontinued operations, net of tax	(104)	(32)
Net loss	$ (676)	$ (9,188)
Loss per common share (basic and diluted):		
Net loss continuing operations	$ (.01)	$ (.15)
Net loss discontinued operations		
Net loss basic and diluted	$ (.01)	$ (.15)
Weighted average outstanding shares of common stock (basic and diluted)	61,134	60,537

See accompanying notes to condensed consolidated financial statements.

UNIFI, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited) (Amounts in thousands)

	For the Quarters Ended	
	September 28, 2008	September 23, 2007
Cash and cash equivalents at beginning of year	$ 20,248	$ 40,031
Operating activities:		
Net loss	(676)	(9,188)
Adjustments to reconcile net loss to net cash provided by (used in) continuing operating activities:		
Loss from discontinued operations	104	32
Earnings of unconsolidated equity affiliates, net of distributions	(1,417)	282
Depreciation	8,980	9,599
Amortization	1,069	1,162
Stock-based compensation expense	282	107
Deferred compensation expense, net	(81)	30
Net gain on asset sales	(316)	(142)
Non-cash write down of long-lived assets		533
Non-cash write down of investment in unconsolidated affiliate		4,505
Non-cash portion of restructuring charges		2,632
Deferred income tax benefit	(115)	(7,524)
Provision for bad debts	558	254
Other	296	(473)
Change in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments	(6,082)	(3,016)
Net cash provided by (used in) continuing operating activities	2,602	(1,207)
Investing activities:		
Capital expenditures	(3,569)	(1,064)
Change in restricted cash	5,183	(915)
Proceeds from sale of capital assets	101	2,216
Return of capital from equity affiliate		234
Other	(94)	264
Net cash provided by investing activities	1,621	735
Financing activities:		
Borrowings of long-term debt	4,600	157
Payments of long-term debt	(9,080)	(6,705)
Proceeds from stock exercises	3,551	
Other	37	33
Net cash used in financing activities	(892)	(6,515)
Cash flows of discontinued operations:		

Operating cash flow	(114)	(78)
Net cash used in discontinued operations	(114)	(78)
Effect of exchange rate changes on cash and cash equivalents	(3,069)	893
Net increase (decrease) in cash and cash equivalents	148	(6,172)
Cash and cash equivalents at end of period	$ 20,396	$ 33,859

See accompanying notes to condensed consolidated financial statements.

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UNIFI, INC.
Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The Condensed Consolidated Balance Sheet of Unifi, Inc. (the Company) at June 29, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. Except as noted with respect to the balance sheet at June 29, 2008, this information is unaudited and reflects all adjustments which are, in the opinion of management, necessary to present fairly the financial position at September 28, 2008, and the results of operations and cash flows for the periods ended September 28, 2008 and September 23, 2007. Such adjustments consisted of normal recurring items necessary for fair presentation in conformity with U.S. GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended June 29, 2008. Certain prior period amounts have been reclassified to conform to current year presentation.

The significant accounting policies followed by the Company are presented on pages 65 to 71 of the Company s Annual Report on Form 10-K for the fiscal year ended June 29, 2008.

2. Inventories

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

	September 28, 2008	June 29, 2008
Raw materials and supplies	$ 50,873	$ 51,407
Work in process	6,974	7,021
Finished goods	70,147	64,462
	$ 127,994	$ 122,890

3. Accrued Expenses

Accrued expenses are comprised of the following (amounts in thousands):

	September 28, 2008	June 29, 2008
Payroll and fringe benefits	$ 7,237	$ 11,101
Severance	1,749	1,935
Interest	8,313	2,813
Utilities	2,438	3,114
Closure reserve	1,105	1,414
Retiree benefits	1,715	1,733
Property taxes	1,623	1,132
Other	1,881	2,289

	$	26,061	$ 25,531

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4. Other (Income) Expense, Net

The following table summarizes the Company s other (income) expense, net (amounts in thousands):

	For the Quarters Ended	
	September 28, 2008	September 23, 2007
Gain on sale of fixed assets	$ (316)	$ (142)
Gain from sale of nitrogen credits		(807)
Technology fee from China joint venture		(438)
Currency (gains) losses	(304)	326
Other, net	59	55
Other (income) expense, net	$ (561)	$ (1,006)

5. Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 159, Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment to FASB Statement No. 115 that expands the use of fair value measurement of various financial instruments and other items. This statement provides entities the option to record certain financial assets and liabilities, such as firm commitments, non-financial insurance contracts and warranties, and host financial instruments at fair value. Generally, the fair value option may be applied instrument by instrument and is irrevocable once elected. The unrealized gains and losses on elected items would be recorded as earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. On June 30, 2008, the Company determined it would not elect to record any eligible balance sheet accounts at fair value.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . SFAS No. 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. As a result of SFAS No. 157 there is now a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. The provisions of SFAS No. 157 were to be effective for fiscal years beginning after November 15, 2007. On February 12, 2008, the FASB issued Staff Position (FSP) FAS 157-2 which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for fiscal year 2009, the Company adopted SFAS No. 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2 and the adoption of this standard did not have a material effect on its consolidated financial statements.

6. Comprehensive Income (Loss)

Comprehensive loss amounted to $16.5 million for the first quarter of fiscal year 2009 compared to comprehensive loss of $5.7 million for the first quarter of fiscal year 2008. Comprehensive loss is comprised of $0.7 million of net loss and $15.8 million of negative cumulative translation adjustments for the first quarter of fiscal year 2009. Comparatively, comprehensive loss for the corresponding period in the prior year was comprised of $9.2 million of net losses and $3.5 million of positive cumulative translation adjustments. The Company does not provide income taxes on the impact of currency translations as earnings from foreign subsidiaries are deemed to be permanently invested.

7. Investments in Unconsolidated Affiliates

The following table represents the Company s investments in unconsolidated affiliates:

Affiliate Name	Date Acquired	Location	Percent Ownership
Yihua Unifi Fibre Company Limited	August 2005	Yizheng, Jiangsu Province, People s Republic of China	50%
Parkdale America, LLC	June 1997	North and South Carolina	34%
Unifi-SANS Technical Fibers, LLC	September 2000 (1)	Stoneville, North Carolina	50%
U.N.F. Industries, LLC	September 2000	Migdal Ha Emek, Israel	50%

(1) sold in the second quarter of fiscal year 2008

Condensed income statement information for the quarters ended September 28, 2008 and September 23, 2007, of the combined unconsolidated equity affiliates, Yihua Unifi Fibre Company Limited (YUFI), UNIFI-SANS Technical Fibers, LLC (USTF), Parkdale America, LLC (PAL), and U.N.F. Industries Ltd (UNF) are as follows (amounts in thousands):

	For the Quarter Ended September 28, 2008			
	YUFI	PAL	UNF	Total
Net sales	$39,881	$122,083	$ 5,892	$167,856
Gross profit (loss)	(2,048)	6,246	(789)	3,409
Depreciation and amortization	1,395	4,457	474	6,326
Income (loss) from operations	(4,156)	3,478	(1,270)	(1,948)
Net income (loss)	(4,617)	10,146	(1,143)	4,386

	For the Quarter Ended September 23, 2007				
	USTF	YUFI	PAL	UNF	Total
Net sales	$6,455	$37,069	$110,596	$7,362	$161,482
Gross profit (loss)	571	(307)	4,622	319	5,205
Depreciation and amortization	578	1,324	4,910	474	7,286
Income (loss) from operations	189	(1,772)	1,058	134	(391)
Net income (loss)	148	(2,414)	1,353	144	(769)

8. Income Taxes

The Company s income tax provision for the quarter ended September 28, 2008 resulted in tax expense at an effective rate of 143.5% compared to the quarter ended September 23, 2007 which resulted in a tax benefit at an effective rate of 43.1%. The primary difference between the Company s income tax expense and the U.S. statutory rate for the quarter ended September 28, 2008 was an increase in the valuation allowance due to an increase in domestic pre-tax losses upon which no tax benefit could be recognized. The primary differences between the Company s income tax benefit and the U.S. statutory rate for the quarter ended September 23, 2007 were a decrease in the valuation allowance for certain asset impairments and state income tax benefit.

Deferred income taxes have been provided for the temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. The Company has continued to record a valuation allowance against its net domestic deferred tax assets as those net deferred assets are more likely than not to be unrealizable for income tax purposes. The valuation allowance increased $0.6 million in the quarter ended September 28, 2008 compared to a $5.1 million decrease in the quarter ended September 23, 2007.

During the quarter ended September 28, 2008, the Company had a reduction in its FIN 48 liability of $0.1 million in relation to a settlement with the Internal Revenue Service (IRS) concerning the audit of

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its federal corporate income tax returns for the fiscal years 2003-2006. This reduction in FIN 48 liability had no impact on the effective tax rate for the quarter. The liability for unrecognized tax benefits is expected to be reduced within the next twelve months by approximately $1.5 million related to North Carolina income tax credit carry forwards that are anticipated to expire unused by the end of fiscal year 2009.

There was no change in the amount of interest and penalties during the quarter ended September 28, 2008.

The Company is subject to income tax examinations for U.S. federal income taxes for fiscal years 2007 and 2008; the IRS recently concluded its exam for fiscal years 2003 through 2006. The Company is also subject to income tax examinations for non-U.S. income taxes for tax years 2000 through 2008, and for state and local income taxes for fiscal years 2001 through 2008.

9. Stock-Based Compensation

During the second quarter of fiscal year 2008, the Board of Directors (Board) authorized the issuance of 1,570,000 stock options from the 1999 Long-Term Incentive Plan of which 120,000 were issued to certain Board members and the remaining options were issued to certain key employees. The stock options issued to key employees are subject to a market condition which vests the options on the date that the closing price of the Company s common stock shall have been at least $6.00 per share for thirty consecutive trading days. The stock options issued to certain Board members are subject to a similar market condition in that one half of each member s options vest on the date that the closing price of the Company s common stock shall have been at least $8.00 per share for thirty consecutive trading days and the remaining one half vest on the date that the closing price of the Company s common stock shall have been at least $10.00 per share for thirty consecutive trading days. The Company used a Monte Carlo stock option model to estimate fair value and the derived vesting periods which range from 2.4 to 3.9 years.

The Company incurred $0.3 million and $0.1 million in the first quarter of fiscal years 2009 and 2008, respectively, in stock-based compensation charges which were recorded as selling, general and administrative (SG&A) expenses with the offset to additional paid-in-capital.

During the first quarter of fiscal year 2009, the Company issued 1,268,300 shares of common stock as a result of the exercise of an equivalent number of stock options.

10. Assets Held for Sale

As of September 28, 2008 and June 29, 2008, the Company had assets held for sale related to the consolidation of its polyester manufacturing capacity. Included in assets held for sale are the remaining assets and structures at the Kinston site which have a carrying value of $1.6 million and certain real property and related assets located in Yadkinville, North Carolina which have a carrying value of $2.2 million.

On September 29, 2008, the Company entered into an agreement to sell certain polyester real property and related assets located in Yadkinville, North Carolina for $7.0 million. Upon the closing of this sale, the Company expects to record a gain of approximately $5.0 million. The Company anticipates that the sale will be completed during the second quarter of fiscal year 2009, however, the sale is subject to closing conditions and therefore the Company can make no assurance that the sale will be completed during this time period or at all.

During the first quarter of fiscal year 2008, the Company completed the sale of a nylon manufacturing facility located in Madison, North Carolina which was listed as held for sale. Net proceeds from this transaction were $2.1 million.

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The following table summarizes by category assets held for sale (amounts in thousands):

	September 28, 2008	June 29, 2008
Land	$ 30	$ 30
Building	1,399	1,348
Machinery and equipment	2,379	2,746
	$ 3,808	$ 4,124

11. Impairment Charges

Write down of long-lived assets

During the first quarter of fiscal year 2008, the Company s Brazilian polyester operation continued the modernization plan for its facilities by abandoning four of its older machines and replacing them with newer machines purchased from the Company s domestic polyester division. As a result, the Company recognized $0.5 million in non-cash impairment charges on the older machines.

Write down of equity affiliates

During the first quarter of fiscal year 2008, the Company performed a review of the fair value of USTF as part of the negotiations related to the sale. The Company determined that the carrying value exceeded its fair value and recorded a non-cash impairment charge of $4.5 million. The investment was sold in the second quarter of fiscal year 2008.

12. Severance and Restructuring Charges

Severance

In the first quarter of fiscal 2008, the Company announced the closure of its polyester facility in Kinston, North Carolina. The Kinston facility produced partially oriented yarn (POY) for internal consumption and third party sales. The Company now purchases its commodity POY needs from external suppliers for conversion in its texturing operations. The Company continues to produce POY in the Yadkinville, North Carolina facility for its specialty and premier valued-added (PVA) yarns and certain other commodity yarns. During the first quarter of fiscal year 2008, the Company recorded $0.8 million for severance related to its Kinston consolidation which was reflected on the Cost of sales line item in the Consolidated Statements of Operations. Approximately 231 employees which included 31 salaried positions and 200 wage positions were affected as a result of the reorganization.

In the first quarter of fiscal year 2008, the Company announced its plan to re-organize certain corporate staff and manufacturing support functions to further reduce costs. The Company recorded $1.1 million for severance related to this reorganization which was reflected on the Restructuring charges line item of the Consolidated Statements of Operations. Approximately 54 salaried employees were affected by this reorganization. In addition, the Company recorded severance of $2.4 million for its former President and Chief Executive Officer during the first quarter of fiscal year 2008 and $1.7 million for severance related to its former Chief Financial Officer during the second quarter of fiscal year 2008 which were reflected on the Selling, general, & administrative expense line item in the Consolidated Statements of Operations.

On September 28, 2007, the Company completed the sale of its polyester manufacturing facilities located in Staunton, Virginia for $3.1 million. The Company continued to lease the Staunton property under an operating lease which currently expires in November 2008. On May 14, 2008, the Company announced the closing of its Staunton, Virginia facility and the transfer of all its production to its facility in Yadkinville, North Carolina. During the first quarter of fiscal year 2009, the Company recorded $0.1 million for severance related to its Staunton consolidation. Approximately 6 salaried employees and 35 wage employees will be affected by this reorganization. The expenses were reflected on the Cost of sales line item in the Consolidated Statements of Operations.

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Restructuring

In the first quarter of fiscal year 2008, the Company recorded $1.5 million for restructuring charges related to unfavorable Kinston contracts for continued services after the closing of the facility.

The table below summarizes changes to the accrued severance and accrued restructuring accounts for the period ended September 28, 2008 (amounts in thousands):