UNIFI INC
Form 424B3
December 20, 2006

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PROSPECTUS

Unifi, Inc.

Exchange Offer for $190,000,000

11 1/2% Senior Secured Notes due 2014

The Notes and the Guarantees

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

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

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

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

Terms of the exchange offer

It will expire at 5:00 p.m., New York City time, on January 23, 2007, unless we extend it.

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

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

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

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

Before participating in this exchange offer, please refer to the section in this prospectus entitled Risk Factors commencing on page 23.

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

The date of this prospectus is December 20, 2006.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

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

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

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

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

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

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

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

Mr. Charles F. McCoy

Vice President, Secretary and General Counsel

Unifi, Inc.

P.O. Box 19109

Greensboro, NC 27419-9109

(336) 294-4410

MARKET SHARE, RANKING AND OTHER DATA

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

TRADEMARKS

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

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PROSPECTUS SUMMARY

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

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

Unifi

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

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

Net Sales by Product Type

Net Sales by End-Use Market

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

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

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

Business Strengths

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

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

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

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

Leading Supplier in the Regional Free-Trade Markets. We are the largest of only a few producers in the regional free-trade markets of polyester POY. When U.S.-origin POY is used to produce finished goods in these

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

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

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

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

Business Strategy

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

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

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

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

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

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

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

Industry Overview

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

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

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

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

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

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

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

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

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

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

The Refinancing Transactions

Tender Offer for 2008 Notes

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

Amended Revolving Credit Facility

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

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

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Recent Developments

We announced on December 8, 2006 that we had revised our expectations for the financial results for the quarter ending December 2006. We had previously forecasted our EBITDA for the quarter in our earnings call on October 26, 2006. We now expect our actual results to be less than 50% of this forecast. We experienced a drop in volume, primarily in our POY business, in the month of September, which continued through October and November, despite the reduction in sales price to our customers. The drop in volume has a significant negative impact on our earnings. Although raw material prices have declined since a high in September, we are still working off the higher priced inventory due to the first-in-first-out inventory accounting method that is being applied, which has had an additional negative effect on earnings, and the low volume has the additional effect of lengthening this process. Our customers have informed us that we have not lost market share in this period but that the demand from retailers has slowed some business. Certain customers that built excessive inventory in the summer months also have informed us that they are continuing to work those inventories down. December is typically a slow month because of the holidays, so we do not plan any long-term actions beyond those already planned from an operational point of view until actual sales volumes are clear in the month of January. As of December 6, 2006, after paying interest on our bond interest obligation, we had approximately $16.9 million of cash-on-hand in the U.S. and total cash-on-hand from all operations of approximately $28.6 million.

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Our Structure

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

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

(2) Consists of wholly-owned domestic subsidiaries of Unifi, Inc. which are guarantors of the notes and co-borrowers under the amended revolving credit facility.

(3) Consists of Unifi do Brasil Ltda, Unifi Latin America S.A. and Unifi Holding I B.V. No more than 65% of the voting stock of the first-tier foreign subsidiaries are included in the collateral securing the notes on a first-priority basis.

(4) Consists of Parkdale America, LLC and Unifi-SANS Technical Fibers, LLC, of which we own 34% and 50%, respectively. The capital stock of these domestic joint ventures is included in the collateral securing the notes on a first-priority basis.

(5) Consists of Yihua Unifi Fibre Industry Company Limited and U.N.F. Industries, Ltd, of which we own 50% each. The capital stock of our current foreign joint ventures is not included in the collateral securing the notes because it is not held directly by Unifi or a guarantor of the notes.

(6) The capital stock of our other foreign subsidiaries is not included in the collateral securing the notes.

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

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

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

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SUMMARY OF THE EXCHANGE OFFER

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

Exchange Offer	We will exchange our exchange notes for a like aggregate principal amount at maturity of our initial notes.
Expiration Date	This exchange offer will expire at 5:00 p.m., New York City time, on January 23, 2007, unless we decide to extend it.
Conditions to the Exchange Offer	We will complete this exchange offer only if:
	there is no change in the laws and regulations which would impair our ability to proceed with this exchange offer,
	there is no change in the current interpretation of the staff of the SEC which permits resales of the exchange notes,
	there is no stop order issued by the SEC which would suspend the effectiveness of the registration statement which includes this prospectus or the qualification of the exchange notes under the Trust Indenture Act of 1939,
	there is no litigation or threatened litigation which would impair our ability to proceed with this exchange offer, and
	we obtain all the governmental approvals we deem necessary to complete this exchange offer.
	Please refer to the section in this prospectus entitled The Exchange Offer Conditions to the Exchange Offer.
Procedures for Tendering Initial Notes	To participate in this exchange offer, you must complete, sign and date the letter of transmittal or its facsimile and transmit it, together with your initial notes to be exchanged and all other documents required by the letter of transmittal, to U.S. Bank National Association, as exchange agent, at its address indicated under The Exchange Offer Exchange Agent. In the alternative, you can tender your initial notes by book-entry delivery following the procedures described in this prospectus. For more information on tendering your notes, please refer to the section in this prospectus entitled The Exchange Offer Procedures for Tendering Initial Notes.

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

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

- except as set forth in the next paragraph, you will not necessarily be able to require us to register your initial notes under the Securities Act,

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

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

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

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

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

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

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

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

Resales

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

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

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

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

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

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

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

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

Obligations of Broker-Dealers

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

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Summary of Terms of the Exchange Notes

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

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

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

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Subsidiary Guarantees	The exchange notes will be jointly and severally guaranteed on a senior secured basis by our existing and future domestic restricted subsidiaries. In the future, the guarantees may be released or terminated under certain circumstances. Each subsidiary guarantee will rank: *pari passu* in right of payment with any existing and future senior indebtedness of the guarantor subsidiary; senior in right of payment to any existing and future subordinated indebtedness of the guarantor subsidiary; effectively subordinated to indebtedness under our amended revolving credit facility to the extent of such subsidiary guarantor s collateral securing such indebtedness on a first-priority basis; and effectively senior to any existing and future indebtedness of the guarantor subsidiary to the extent of such subsidiary guarantor s collateral securing the exchange notes on a first-priority basis.
Security	The exchange notes and guarantees will be secured by first-priority liens, subject to permitted liens, on substantially all of our and our subsidiary guarantors assets (other than inventory, accounts receivable, general intangibles (other than uncertificated capital stock of subsidiaries and other persons), investment property (other than capital stock of subsidiaries and other persons), chattel paper, documents, instruments, supporting obligations, letter of credit rights, deposit accounts and other related personal property and all proceeds relating to any of the above, that secure our amended revolving credit facility on a first-priority basis), including, but not limited to, the property, plant and equipment, the capital stock of our domestic subsidiaries and certain of our joint ventures, up to 65% of the voting stock of our first-tier foreign subsidiaries now owned or hereafter acquired by us and our subsidiary guarantors, except for certain excluded assets. The exchange notes and guarantees will be secured by second-priority liens, subject to permitted liens, on our and our subsidiary guarantors assets that secure our amended revolving credit facility on a first-priority basis. Our obligations under our amended revolving credit facility are secured by second-priority liens, subject to permitted liens, on our and our subsidiary guarantors assets that will secure the exchange notes and guarantees on a first-priority basis. See Description of the Notes Security. The liens on the collateral securing the exchange notes and obligations under our amended revolving credit facility will be subject to the contractual provisions of an intercreditor agreement. See Description of the Notes Security. The security interests of the holders of the exchange notes in the collateral are subject to other important limitations and exceptions which are described under the sections Risk Factors Risks Related to The Notes and This Offering and Description of the Notes.

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

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

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

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PRESENTATION OF FINANCIAL INFORMATION

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

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

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SUMMARY HISTORICAL FINANCIAL DATA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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The following items can be considered in addition to EBITDA:

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

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

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

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

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

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

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

See Note 14 to our audited consolidated financial statements.

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

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

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

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

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RISK FACTORS

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

Risks Related to The Notes and This Offering

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

sell certain assets or merge with or into other companies;

enter into certain transactions with stockholders and affiliates;

make capital expenditures; and

restrict dividends, distributions or other payments from our subsidiaries.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The collateral is subject to casualty risks.

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

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

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

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

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

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

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

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

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

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

- intended to hinder, delay, or defraud any existing or future creditor or contemplated insolvency with a design to prefer one or more creditors to the exclusion in whole or in part of others; or
- did not receive fair consideration or reasonably equivalent value for issuing the notes; *and*
- were insolvent;
- were rendered insolvent by reason of that issuance;
- were engaged or about to engage in a business or transaction for which our remaining assets constituted reasonably small capital to carry on our business; or
- intended to incur, or believed that we would incur, debts beyond our ability to pay as they matured,

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

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

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets, as the case may be;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they became due.

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

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

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

Even if a trading market for the exchange notes does develop, you may not be able to sell your exchange notes at a particular time, if at all, or you may not be able to obtain the price you desire for your exchange notes. If the exchange notes are traded after their initial issuance, they may trade at a discount from their initial offering

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price depending on many factors including prevailing interest rates, the market for similar securities, our credit rating, the interest of securities dealers in making a market for the exchange notes, the price of any other securities we issue, the performance prospects and financial condition of our company as well as of other companies in our industry.

The market price for the notes may be volatile.

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

Risk Related to the Exchange Offer

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

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

Risks Related to Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, we could incur significant expenditures in order to comply with existing or future environmental or safety laws. For example, the land associated with the Kinston acquisition is leased under a 99 year ground lease with DuPont. Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the U.S. Environmental Protection Agency and the North Carolina Department of Environment and Natural Resources under the Resource Conservation and Recovery Act Corrective Action Program. The Corrective Action Program requires DuPont to identify all potential areas of environmental concern, known as solid waste management units or areas of concern, assess the extent of contamination at the identified areas and clean them up to applicable regulatory standards. Under the terms of the ground lease, upon completion by DuPont of required remedial action, ownership of the Kinston site will pass to us. Thereafter, we will have responsibility for future remediation requirements, if any, at the solid waste management units and areas of concern previously addressed by DuPont and at any other areas at the plant. At this time we have no basis to determine if and when we will have any responsibility or obligation with respect to contaminated solid waste management units and areas of concern or the extent of any potential liability for the same. Accordingly, the

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possibility that we could face material clean-up costs in the future relating to the Kinston facility cannot be eliminated. Capital expenditures and, to a lesser extent, costs and operating expenses relating to environmental or safety matters will be subject to evolving regulatory requirements and will depend on the timing of the promulgation and enforcement of specific standards which impose requirements on our operations. Therefore, capital expenditures beyond those currently anticipated may be required under existing or future environmental or safety laws. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Environmental Liabilities.

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

Health and safety regulation costs could increase.

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

Our business may be adversely affected by adverse employee relations.

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

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

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

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

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

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

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

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

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

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

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FORWARD-LOOKING STATEMENTS

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

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

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

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USE OF PROCEEDS

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

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

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

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

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

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CAPITALIZATION

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

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

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

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

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

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

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SELECTED HISTORICAL FINANCIAL DATA

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

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

Ratio of earnings to fixed charges(1)

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

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

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

Business Overview

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

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

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

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

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

Line Items Presented

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

Cost of sales. Our cost of sales consists of direct material, delivery and other manufacturing costs, including labor and overhead, depreciation and amortization expense with respect to manufacturing assets, fixed asset

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depreciation, amortization of intangible assets and reserves for obsolete and slow-moving inventory. Cost of sales also includes amounts directly related to providing technological support to our Chinese joint venture discussed below.

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

Recent Developments and Outlook

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

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

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

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

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

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

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

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

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

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

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

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

Key Performance Indicators

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

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

Corporate Restructurings

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

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

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

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

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

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

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

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

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

Joint Ventures and Other Equity Investments

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

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

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

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

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

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

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

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

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

Critical Accounting Policies

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

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

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

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

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

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

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

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

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Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Polyester Operations

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

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

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

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

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

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

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

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

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

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

Nylon Operations

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

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

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

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

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

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

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

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

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

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

	Fiscal Year 2005		Fiscal Year 2004		% Inc.
		% to Total		% to Total	(Dec.)
	(in thousands, except percentages)				
Consolidated					
Net sales					
Polyester	$ 587,008	73.9	$ 481,847	72.3	21.8
Nylon	206,788	26.1	184,536	27.7	12.1
Total	$ 793,796	100.0	$ 666,383	100.0	19.1
		% to Net Sales		% to Net Sales	
Cost of sales					
Polyester	$ 558,498	70.4	$ 449,121	67.4	24.4
Nylon	204,219	25.7	176,862	26.5	15.5
Total	762,717	96.1	625,983	93.9	21.8
Selling, general and administrative					
Polyester	30,291	3.8	34,835	5.2	(13.0)
Nylon	11,920	1.5			