UNIFI INC
Form 10-Q
February 01, 2008

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

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

For the quarterly period ended December 23, 2007

OR

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

For the transition period from __________ to __________

Commission File Number: 1-10542

UNIFI, INC.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The number of shares outstanding of the issuer s common stock, par value $.10 per share, as of January 31, 2008 was 60,588,900.

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Part. 1 Financial Information
Item. 1 Financial Statements

UNIFI, INC.
Condensed Consolidated Balance Sheets

	December 23, 2007 (Unaudited)	June 24, 2007
	(Amounts in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,775	$ 40,031
Receivables, net	99,258	93,989
Inventories	121,080	132,282
Deferred income taxes	1,946	9,923
Assets held for sale	3,652	7,880
Restricted cash	18,846	4,036
Other current assets	12,691	11,973
Total current assets	283,248	300,114
Property, plant and equipment	885,954	913,144
Less accumulated depreciation	(696,510)	(703,189)
	189,444	209,955
Investments in unconsolidated affiliates	79,043	93,170
Intangible assets, net	40,708	42,290
Other noncurrent assets	20,183	20,424
Total assets	$ 612,626	$ 665,953
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 47,099	$ 61,620
Accrued expenses	29,684	28,278
Income taxes payable	704	247
Current maturities of long-term debt and other current liabilities	12,085	11,198
Total current liabilities	89,572	101,343
Long-term debt and other liabilities	227,122	236,149
Deferred income taxes	985	23,507
Commitments and contingencies Shareholders equity:		

Common stock	6,059	6,054
Capital in excess of par value	24,238	23,723
Retained earnings (Note 2)	253,711	270,800
Accumulated other comprehensive income	10,939	4,377
	294,947	304,954
Total liabilities and shareholders equity	$ 612,626	$ 665,953

See accompanying notes to condensed consolidated financial statements.

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UNIFI, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Quarters Ended		For the Six-Months Ended	
	Dec. 23, 2007	Dec. 24, 2006	Dec. 23, 2007	Dec. 24, 2006
	(Amounts in thousands, except per share data)			
Net sales	$ 183,369	$ 156,895	$ 353,905	$ 326,839
Cost of sales	175,049	157,010	334,592	316,393
Selling, general & administrative expenses	12,008	10,388	26,462	21,677
Provision (recovery) for bad debts	(189)	(1,012)	65	598
Interest expense	6,578	6,111	13,290	12,176
Interest income	(754)	(1,066)	(1,580)	(1,510)
Other (income) expense, net	(2,184)	236	(3,190)	(243)
Equity in (earnings) losses of unconsolidated affiliates	21	2,876	(157)	4,825
Restructuring charges	4,205		6,837	
Write down of long-lived assets	2,247	2,002	2,780	3,202
Write down of investment in unconsolidated affiliate			4,505	
Loss from continuing operations before income taxes	(13,612)	(19,650)	(29,699)	(30,279)
Benefit from income taxes	(5,757)	(1,590)	(12,688)	(2,139)
Loss from continuing operations	(7,855)	(18,060)	(17,011)	(28,140)
Income (loss) from discontinued operations net of tax	109	(167)	77	(203)
Net loss	$ (7,746)	$ (18,227)	$ (16,934)	$ (28,343)
Losses per common share (basic and diluted):				
Net loss continuing operations	$ (.13)	$ (.35)	$ (.28)	$ (.54)
Net loss discontinued operations				
Net loss basic and diluted	$ (.13)	$ (.35)	$ (.28)	$ (.54)
Weighted average outstanding shares of common stock (basic and diluted)	60,553	52,198	60,545	52,198

See accompanying notes to condensed consolidated financial statements.

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

	For the Six-Months Ended	
	December 23, 2007	December 24, 2006
Cash and cash equivalents at beginning of year	$ 40,031	$ 35,317
Operating activities:		
Net loss	(16,934)	(28,343)
Adjustments to reconcile net loss to net cash provided by (used in) continuing operating activities:		
(Income) loss from discontinued operations	(77)	203
Net (earnings) losses of unconsolidated equity affiliates, net of distributions	303	4,825
Depreciation	18,850	21,449
Amortization	2,324	557
Stock-based compensation	565	1,238
Net (gain) loss on asset sales	(1,413)	241
Non-cash write down of long-lived assets	2,780	3,202
Non-cash write down of investment in unconsolidated affiliate	4,505	
Non-cash portion of restructuring charges	6,837	
Deferred income tax	(14,699)	(2,411)
Provision for bad debt	65	598
Other	(568)	20
Change in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments	(8,124)	2,571
Net cash provided by (used in) continuing operating activities	(5,586)	4,150
Investing activities:		
Capital expenditures	(3,827)	(3,341)
Acquisition		(393)
Proceeds from sale of equity affiliate	8,750	
Change in restricted cash	(14,810)	
Collection of notes receivable	267	734
Proceeds from sale of capital assets	10,560	30
Return of capital from equity affiliates	234	229
Other		(528)
Net cash provided by (used in) investing activities	1,174	(3,269)
Financing activities:		
Payment of long-term debt	(11,000)	(290)
Other	(708)	(309)
Net cash used in financing activities	(11,708)	(599)

Cash flows of discontinued operations:		
Operating cash flow	(201)	(50)
Net cash used in discontinued operations	(201)	(50)
Effect of exchange rate changes on cash and cash equivalents	2,065	63
Net increase (decrease) in cash and cash equivalents	(14,256)	295
Cash and cash equivalents at end of period	$ 25,775	$ 35,612

See accompanying notes to condensed consolidated financial statements.

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UNIFI, INC.
Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The Condensed Consolidated Balance Sheet at June 24, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. Except as noted with respect to the balance sheet at June 24, 2007, this information is unaudited and reflects all adjustments which are, in the opinion of management, necessary to present fairly the financial position at December 23, 2007, and the results of operations and cash flows for the periods ended December 23, 2007 and December 24, 2006. Such adjustments consisted of normal recurring items necessary for fair presentation in conformity with U.S. GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended June 24, 2007. Certain prior period amounts have been reclassified to conform to current year presentation.

The significant accounting policies followed by the Company are presented on pages 62 to 68 of the Company s Annual Report on Form 10-K for the fiscal year ended June 24, 2007.

2. Inventories

For a discussion of the Company s significant accounting policies, see Note 1 Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements section of the Company s Form 10-K for the fiscal year ended June 24, 2007. As of the date hereof, there has been no significant developments with respect to significant accounting policies since June 24, 2007, other than the following:

Inventories are stated at lower of cost or market. Cost is determined by the first-in, first-out method.

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

	December 23, 2007	June 24, 2007
Raw materials and supplies	$ 51,997	$ 49,690
Work in process	5,708	8,171
Finished goods	63,375	74,421
	$ 121,080	$ 132,282

On June 25, 2007, the Company changed its method of accounting for certain inventories from last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. The Company applied this change in method of inventory costing by retrospective application to the prior years financial statements. The Company believes the change is preferable because the FIFO inventory method is predominantly used in the industry in which the Company operates; and therefore, the change will make the comparison of results among these companies more consistent. The Company also believes that the FIFO method provides a more meaningful presentation of financial position because it reflects more recent costs in the balance sheet. Moreover, the change also conforms all of the Company s raw material, work-in-process and finished goods inventories to a single costing method.

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The impact of the change in method of accounting on certain financial statement line items is as follows (amounts in thousands, except per share data):

Increase / (Decrease)	December 23, 2007 (13 Weeks)	December 24, 2006 (13 Weeks)	December 23, 2007 (26 Weeks)	December 24, 2006 (26 Weeks)	June 24, 2007 (52 Weeks)	June 25, 2006 (52 Weeks)	June 26, 2005 (52 Weeks)
Balance Sheets:							
Inventories	$ 6,546	$ 6,109	$ 6,546	$ 6,109	$ 8,155	$ 7,323	$ 3,492
Current deferred taxes	(2,514)	(2,346)	(2,514)	(2,346)	(3,132)	(2,812)	(1,372)
Noncurrent deferred taxes							32
Retained earnings	4,032	3,763	4,032	3,763	5,023	4,511	2,152
Statements of Operations:							
Cost of sales	994	2,735	1,609	1,214	(832)	(3,831)	(2,924)
Income (loss) from continuing operations	(994)	(2,735)	(1,609)	(1,214)	832	3,831	2,924
Provision (benefit) for income taxes	(382)	(1,050)	(618)	(466)	320	1,472	1,122
Net income (loss)	(612)	(1,685)	(991)	(748)	512	2,359	1,802
Per share of common stock: (basic and diluted)							
Net loss per share	(.01)	(.03)	(.02)	(.01)	.01	.05	.03
Cash Flow Statements:							
Net income (loss)	(612)	(1,685)	(991)	(748)	512	2,359	1,802
Change in inventories	994	2,735	1,609	1,214	(832)	(3,831)	(2,924)
Deferred income tax	(382)	(1,050)	(618)	(466)	320	1,472	1,122
Net cash provided by operating activities							

Note: The disclosure is selective in nature and only addresses the specific accounting impact from the change in inventory accounting methods. The disclosure does not address other potential effects (whether financial or operational) that could have impacted the Company s results of operations or financial position if the Company had elected to remain on the LIFO accounting method for inventories during the thirteen weeks and twenty six weeks ended December 23, 2007.

As a result of the accounting change, retained earnings as of June 24, 2007 increased $5.0 million from $265.8 million, as originally reported using the LIFO method for certain inventories, to $270.8 million using the FIFO method.

3. Accrued Expenses

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

	December 23, 2007	June 24, 2007
Payroll and fringe benefits	$ 7,225	$ 8,256

Severance		2,890	877
Interest		2,811	2,849
Utilities		3,058	4,324
Restructuring		8,712	5,685
Retiree benefits		2,461	2,470
Property taxes		262	1,514
Other		2,265	2,303
	$	29,684	$ 28,278

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4. Income Taxes

The Company s income tax benefit for the quarter ended December 23, 2007 resulted in an effective tax rate of (42.3)% compared to the quarter ended December 24, 2006 which resulted in an effective tax rate of (8.1)%. The Company s income tax benefit for the year-to-date period ended December 23, 2007 resulted in an effective tax rate of (42.7)% compared to the year-to-date period ended December 24, 2006 which resulted in an effective tax rate of (7.1)%. The primary differences between the Company s income tax benefit and the U.S. statutory rate for the quarter and year-to-date period ended December 23, 2007 were losses from certain foreign operations taxed at a lower effective rate, state income tax benefit, and a decrease in the valuation allowance.

Deferred income taxes have been provided for the temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. The Company has established a valuation allowance to completely offset its U.S. net deferred tax asset. The valuation allowance decreased $1.7 million and $6.8 million in the quarter and year-to date period ended December 23, 2007, respectively, compared to a $5.1 million increase in both the quarter and year-to-date period ended December 24, 2006. The decrease in the valuation allowance for the quarter ended December 23, 2007 was primarily due to a reduction in estimated capital losses related to certain fixed assets and lower estimates of future realization of U.S. loss carryforwards and other deductible items. The decrease in the valuation allowance for the year-to-date period ended December 23, 2007 was primarily due to the derecognition of unrealized tax benefits with respect to North Carolina income tax credit carryforwards, a reduction in estimated capital losses related to certain fixed assets offset by lower estimates of future realization of U.S. loss carryforwards and other deductible items.

On June 25, 2007, the Company adopted Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. There was a $0.2 million cumulative adjustment to retained earnings on adoption of FIN 48.

The Company had unrecognized tax benefits of $4.5 million as of the June 25, 2007 adoption date. Of the total, $0.4 million represents amounts that, if recognized, would favorably affect the effective income tax rate in any future period, and $1.5 million represents North Carolina income tax credit carryforwards that will expire if not utilized within twelve months.

The Company has elected upon adoption of FIN 48 to classify interest and penalties recognized in accordance with FIN 48 as income tax expense. The Company had $0.1 million of accrued interest and no penalties related to uncertain tax positions as of June 25, 2007.

There was no change in the amount of unrecognized tax benefits or related interest and penalties during the quarter and year-to-date period ended December 23, 2007.

The Company is subject to income tax examinations for U.S. federal income taxes for fiscal years 2003 through 2007, for non-U.S. income taxes for tax years 2000 through 2007, and for state and local income taxes for fiscal years 2001 through 2007. The Company s U.S. federal income tax return for fiscal year 2006 is currently under examination.

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5. Comprehensive Income (Loss)

Comprehensive losses amounted to $4.7 million and $10.4 million for the second quarter and year-to-date periods of fiscal year 2008, respectively, compared to comprehensive losses of $16.9 million and $26.7 million for the second quarter and the year-to-date periods of fiscal year 2007. Comprehensive losses were comprised of net losses of $7.7 million and $16.9 million for the second quarter and year-to-date periods of fiscal year 2008, respectively, and foreign translation gains of $3.0 million and $6.5 million, respectively. Comparatively, comprehensive losses for the corresponding periods in the prior fiscal year were derived from net losses of $18.2 million and $28.3 million, and foreign translation gains of $1.3 million and $1.7 million, respectively. The Company does not provide income taxes on the impact of currency translations as earnings from foreign subsidiaries are deemed to be permanently invested.

6. Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141R, Business Combinations-Revised (SFAS 141R). This new standard replaces SFAS 141 Business Combinations . SFAS 141R requires that the acquisition method of accounting, instead of the purchase method, be applied to all business combinations and that an acquirer be identified in the process. The statement requires that fair market value be used to recognize assets and assumed liabilities instead of the cost allocation method where the costs of an acquisition are allocated to individual assets based on their estimated fair values. Goodwill would be calculated as the excess purchase price over the fair value of the assets acquired; however, negative goodwill will be recognized immediately as a gain instead of being allocated to individual assets acquired. Costs of the acquisition will be recognized separately from the business combination. The end result is that the statement improves the comparability, relevance and completeness of assets acquired and liabilities assumed in a business combination. SFAS 141R is effective for business combinations which occur in fiscal years beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51 . This new standard requires that ownership interests held by parties other than the parent be presented separately within equity in the statement of financial position; the amount of consolidated net income be clearly identified and presented on the statements of income; all transactions resulting in a change of ownership interest whereby the parent retains control to be accounted for as equity transactions; and when controlling interest is not retained by the parent, any retained equity investment will be valued at fair market value with a gain or loss being recognized on the transaction. SFAS 160 is effective for business combinations which occur in fiscal years beginning on or after December 15, 2008. The Company does not expect this statement to have an impact on its results of operations or financial condition.

In February 2007, the FASB issued SFAS 159, Fair Value Option for Financial Assets and Financials Liabilities-Including an Amendment to FASB Statement No. 115 that expands the use of fair value measurement of various financial instruments and other items. This statement provides entities the option to record certain financial assets and liabilities, such as firm commitments, non-financial insurance contracts and warranties, and host financial instruments at fair value. Generally, the fair value option may be applied instrument by instrument and is irrevocable once elected. The unrealized gains and losses on elected items would be recorded as earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company continues to evaluate the provisions of SFAS 159 and has not determined if it will make any elections for fair value reporting of its assets.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements (SFAS 157). SFAS 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. As a result of SFAS 157 there is now a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve

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disclosures about those measures. The provisions of SFAS 157 were to be effective for fiscal years beginning after November 15, 2007. On December 14, 2007, the FASB issued proposed FSP FAS 157-b which would delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This proposed FSP partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for fiscal year 2009, the Company will adopt SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in proposed FSP FAS 157-b. The Company is in the process of determining the financial impact of the partial adoption of SFAS 157 on its results of operations and financial condition.

7. Segment Disclosures

The following is the Company s selected segment information for the quarter and six-month periods ended December 23, 2007 and December 24, 2006 (amounts in thousands):

	Polyester	Nylon	Total
Quarter ended December 23, 2007:			
Net sales to external customers	$135,119	$ 48,250	$183,369
Intersegment net sales	2,008	911	2,919
Segment operating income (loss)	(10,845)	705	(10,140)
Total assets	381,758	99,206	480,964
Quarter ended December 24, 2006:			
Net sales to external customers	$118,507	$ 38,388	$156,895
Intersegment net sales	1,485	1,268	2,753
Segment operating loss	(10,717)	(1,788)	(12,505)
Total assets	338,969	121,543	460,512

The following table represents reconciliations from segment data to consolidated reporting data (amounts in thousands):

	For the Quarters Ended
	December 23,