



news

Tefron Reports Third Quarter 2008 Results

Third Quarter Summary

- Quarterly revenues of \$38.3 million, 26.1% above revenues of the third quarter of last year
- Operating loss of \$6.8 million, as compared with operating loss of \$1.5 million in the third quarter of last year
- Net loss of \$5.6 million or \$0.26 loss per diluted share, as compared with net loss of \$1.7 million, or \$0.08 per diluted share, in the third quarter of last year.

Misgav, Israel, November 20, 2008 - Tefron Ltd. (NYSE:TFR; TASE:TFRN), a leading producer of seamless intimate apparel and engineered-for-performance (EFP™) active wear, today announced financial results for the third quarter of 2008.

Third Quarter 2008 Results

Third quarter revenues were \$38.3 million, representing a 26.1% increase from the third quarter of 2007 revenues of \$30.3 million. The increase in revenues in the quarter was due to an increase in sales across all the Company's product lines, particularly active-wear and intimate apparel.

The company reported a gross loss in the quarter of \$1.7 million compared to a gross profit of \$2.4 million in the third quarter of 2007. Operating loss for the quarter was \$6.8 million, as compared with an operating loss of \$1.5 million in the third quarter of 2007. Net loss for the quarter was \$5.6 million, or \$0.26 loss per diluted share, as compared with a net loss of \$1.7 million, or \$0.08 per diluted share, in the third quarter of 2007.

The main reasons for the loss are (i) the significant devaluation of the US Dollar versus the New Israeli Shekel, amounting to \$2.7 million additional expenses compared with third quarter 2007, and (ii) the manufacturing challenges that we have not been overcome yet in the Hi-Tex division. In addition, the Company wrote down \$2.2 million in inventory, due to the difficulty of selling older collections in the current weak economic environment.

Results for First Nine Months of 2008

Revenues in the first nine months of 2008 were \$137.9 million, representing a 15.2% increase from revenues of \$119.7 million generated during the first nine months of 2007. The increase in revenue was due to an increase in year-over-year sales across all product lines including active-wear, swimwear and intimate apparel.

Gross profit in the first nine months of 2008 was \$8.4 million compared with \$17.4 million in the first nine months of 2007. Operating loss was \$8.7 million compared with an operating income of \$4.5 million in the first nine months of 2007. Net loss was \$8.8 million, or \$0.41 per diluted share, compared to a net income of \$2.9 million or \$0.13 per diluted share in the first nine months of 2007. The decline in profitability was due to increased costs, in particular the manufacturing challenges faced in the Hi-Tex division as well as the significant devaluation of the US Dollar versus the New Israeli Shekel compared with the same period last year.

Due to Tefron's current share price, Tefron is not in compliance under the continuing listing requirements of the New York Stock Exchange. The Company is currently reviewing various alternatives in order to regain compliance.

Management comments

Mr. Adi Livneh, Chief Executive Officer of Tefron, commented, "I joined Tefron in September, at the end of a very tough quarter. In my first months here, I have already taken a number of steps including far-reaching structural changes at Tefron, as well as the replacement of some senior personnel with highly experienced industry executives. I believe these are steps in the right direction, which will enable us to resolve the current challenges. Our goal is to improve the quality of our manufacturing, more efficiently exploit our inventory, while lowering wastage and saving costs with the goal of returning Tefron to profitability in the coming quarters."

Mr. Livneh continued, "I recently met with all of Tefron's major customers as well as a number of potential customers. We were successful in achieving some first-time initial orders from several new customers including Wal-Mart and White House-Black Market, both of which diversify and grow our revenue base, and provide us with strong future potential. At the same time, our existing customers are behind us and support the changes we are making."

"I have joined a strong team and a company with significant long-term growth potential. However, to realize this potential, I am focusing my initial efforts on solving the manufacturing issues. I do hope to see the positive results of this effort during 2009," concluded Mr. Livneh.

Conference Call

The Company will also be hosting a conference call today, November 20, at 10:00am ET. On the call, management will review and discuss the results and will be available to answer investor questions.

To participate, please call one of the following teleconferencing numbers. Please begin placing your calls at least 5 minutes before the conference call commences. If you are unable to connect using the toll-free numbers, please try the international dial-in number.

US Dial-in Number: 1 888 407 2553

CANADA Dial-in Number: 1 866 958 6867

ISRAEL Dial-in Number: 03 918 0650

INTERNATIONAL Dial-in Number: +972 3 918 0650

For those unable to listen to the live call, a replay of the call will be available for three months within three days after the call in the investor relations section of Tefron's website, at: www.tefron.com

About Tefron

Tefron manufactures boutique-quality everyday seamless intimate apparel, active wear and swim wear sold throughout the world by such name-brand marketers as Victoria's Secret, Nike, Target, The Gap, J. C. Penney, Maidenform, lululemon Athletica, Warnaco/Calvin Klein, Patagonia, Reebok, Swimwear Anywhere, Abercrombie&Fitch , and El Corte Englese, as well as other well known retailers and

designer labels. The company's product line includes knitted briefs, bras, tank tops, boxers, leggings, crop, T-shirts, nightwear, bodysuits, swim wear, beach wear and active-wear.

This press release contains certain forward-looking statements, within the meaning of Section 27A of the US Securities Act of 1933, as amended, Section 21E of the US Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995, with respect to the Company's business, financial condition and results of operations. We have based these forward-looking statements on our current expectations and projections about future events.

Words such as "believe," "anticipate," "expect," "intend," "will," "plan," "could," "may," "project," "goal," "target," and similar expressions often identify forward-looking statements but are not the only way we identify these statements. Except for statements of historical fact contained herein, the matters set forth in this press release regarding our future performance, plans to increase revenues or margins and any statements regarding other future events or future prospects are forward-looking statements.

These forward looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements, including, but not limited to:

- *our customers' continued purchase of our products in the same volumes or on the same terms;*
- *the cyclical nature of the clothing retail industry and the ongoing changes in fashion preferences;*
- *the competitive nature of the markets in which we operate, including the ability of our competitors to enter into and compete in the seamless market in which we operate;*
- *the potential adverse effect on our business resulting from our international operations, including increased custom duties and import quotas (e.g., in China, where we manufacture for our swimwear division).*
- *fluctuations in inflation and currency rates;*
- *the potential adverse effect on our future operating efficiency resulting from our expansion into new product lines with more complicated products, different raw materials and changes in market trends;*
- *the purchase of new equipment that may be necessary as a result of our expansion into new product lines;*
- *our dependence on our suppliers for our machinery and the maintenance of our machinery;*
- *the fluctuations costs of raw materials; our dependence on subcontractors in connection with our manufacturing process;*
- *our failure to generate sufficient cash from our operations to pay our debt;*
- *political, economic, social, climatic risks, associated with international business and relating to operations in Israel;*

As well as certain other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission. The Company undertakes no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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TABLE 1: SALES BY SEGEMENT

Segment	Nine months ended September 30, 2008		Nine months ended September 30, 2007		Three months ended September 30, 2008		Three months ended September 30, 2007		Year ended December 31, 2007	
	USD Thousands	% of total	USD Thousands	% of total	USD Thousands	% of total	USD Thousands	% of total	USD Thousands	% of total
Cut & sew	70,950	51.5%	53,973	45.1%	13,710	35.8%	11,921	39.3%	77,020	48.6%
Seamless	66,915	48.5%	65,748	54.9%	24,572	64.2%	18,426	60.7%	81,594	51.4%
Total	137,865	100.0%	119,721	100.0%	38,282	100.0%	30,347	100.0%	158,614	100.0%

TABLE 2: SALES BY PRODUCT LINE

Product line	Nine months ended September 30, 2008		Nine months ended September 30, 2007		Three months ended September 30, 2008		Three months ended September 30, 2007		Year ended December 31, 2007	
	USD Thousands	% of total	USD Thousands	% of total	USD Thousands	% of total	USD Thousand	% of total	USD Thousand	% of total
Intimate Apparel	72,281	52.4%	68,867	57.5%	24,221	63.2%	19,601	64.6%	89,877	56.7%
Active wear	39,550	28.7%	30,763	25.7%	12,353	32.3%	9,649	31.8%	42,047	26.5%
Swimwear	26,034	18.9%	20,091	16.8%	1,708	4.5%	1,097	3.6%	26,690	16.8%
Total	137,865	100.0%	119,721	100.0%	38,282	100.0%	30,347	100.0%	158,614	100.0%

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>September 30,</u>		<u>December 31,</u>
	<u>2008</u>	<u>2007</u>	<u>2007</u>
	<u>Unaudited</u>		<u>Audited</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 3,614	\$ 2,695	\$ 2,384
Short-term deposit	500	11,614	7,063
Marketable securities	1,087	7,292	6,952
Trade receivables, net	26,031	29,085	29,033
Other accounts receivable and prepaid expenses	8,440	5,623	5,404
Inventories	29,789	26,345	32,577
<u>Total current assets</u>	<u>69,461</u>	<u>82,654</u>	<u>83,413</u>
LONG-TERM INVESTMENTS:			
Severance pay fund	1,455	939	1,288
Subordinated note	3,000	3,000	3,000
<u>Total long-term investments</u>	<u>4,455</u>	<u>3,939</u>	<u>4,288</u>
PROPERTY, PLANT AND EQUIPMENT, NET	<u>71,136</u>	<u>75,519</u>	<u>74,791</u>
<u>Total assets</u>	<u>\$ 145,052</u>	<u>\$ 162,112</u>	<u>\$ 162,492</u>

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>September 30,</u>		<u>December 31,</u>
	<u>2008</u>	<u>2007</u>	<u>2007</u>
	<u>Unaudited</u>		<u>Audited</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank credit	\$ 4,200	\$ -	\$ -
Current maturities of long-term bank loans	4,151	5,948	5,948
Trade payables	26,365	24,779	29,720
Other accounts payable and accrued expenses	9,348	9,869	8,635
<u>Total current liabilities</u>	<u>44,064</u>	<u>40,596</u>	<u>44,303</u>
LONG-TERM LIABILITIES:			
Long-term loans from banks (net of current maturities)	12,372	14,861	13,374
Deferred taxes	12,306	12,107	12,397
Accrued severance pay	4,466	3,603	3,882
<u>Total long-term liabilities</u>	<u>29,144</u>	<u>30,571</u>	<u>29,653</u>
EMPLOYEE STOCK OPTIONS IN SUBSIDIARY	247	-	-
SHAREHOLDERS' EQUITY:			
Ordinary shares	7,518	7,518	7,518
Additional paid-in capital	106,674	106,446	106,530
Cumulative other comprehensive income	45	998	368
Less - 997,400 Ordinary shares in treasury, at cost	(7,408)	(7,408)	(7,408)
Accumulated deficit	(35,232)	(16,609)	(18,472)
<u>Total shareholders' equity</u>	<u>71,597</u>	<u>90,945</u>	<u>88,536</u>
<u>Total liabilities and shareholders' equity</u>	<u>\$ 145,052</u>	<u>\$ 162,112</u>	<u>\$ 162,492</u>

CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands (except share and per share data)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	Unaudited				Audited
Sales	\$ 137,865	\$ 119,721	\$ 38,282	\$ 30,347	\$ 158,614
Cost of sales (*)	129,481	102,364	39,934	27,983	139,147
Gross profit (loss)	8,384	17,357	(1,652)	2,364	19,467
Selling, general and administrative expenses	17,046	12,849	5,194	3,851	17,715
Operating income (loss)	(8,662)	4,508	(6,846)	(1,487)	1,752
Financial expenses, net	2,957	960	660	503	1,289
Income (loss) before taxes on income	(11,619)	3,548	(7,506)	(1,990)	463
Taxes on income (tax benefit)	(2,859)	645	(1,917)	(311)	(20)
Net income (loss)	\$ (8,760)	\$ 2,903	\$ (5,589)	\$ (1,679)	\$483
Basic and diluted net earnings (losses) per share from continuing operations:					
Basic net earnings (losses) per share	\$ (0.41)	\$ 0.14	\$ (0.26)	\$ (0.08)	\$ 0.02
Diluted net earnings (losses) per share	\$ (0.41)	\$ 0.13	\$ (0.26)	\$ (0.08)	\$ 0.02
Weighted average number of shares used for computing basic earnings (losses) per share	21,202,986	21,183,397	21,202,986	21,200,986	21,188,161
Weighted average number of shares used for computing diluted earnings (losses) per share	21,202,986	21,779,955	21,202,986	21,200,986	21,630,124
(*) Includes inventory write-off	\$ 3,005	\$ 580	\$ 2,190	\$ 40	\$ 1,260

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	Unaudited				Audited
<u>Cash flows from operating activities:</u>					
Net income (loss)	\$ (8,760)	\$ 2,903	\$ (5,589)	\$(1,679)	\$ 483
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation of property, plant and equipment	6,475	6,441	2,139	2,106	8,567
Compensation related to options granted to employees	391	498	48	312	571
Increase (decrease) in accrued severance pay, net	417	144	(18)	91	74
Accrual of interest on short-term deposits	(75)	(496)	-	(168)	(613)
Gain related to sale of marketable securities	(22)	(335)	-	(270)	(134)
Interest and amortization of premium and accretion of discount of marketable securities	(263)	-	-	-	(189)
Impairment of marketable securities	313	-	313	-	-
Increase (decrease) in deferred income taxes	(3,327)	21	(1,186)	(39)	79
Gain on disposal of property, plant and equipment, net	(21)	(641)	(2)	(246)	(651)
Decrease (increase) in trade receivables, net	3,002	1,570	9,893	(851)	1,622
Decrease (increase) in other accounts receivable and prepaid expenses	500	(826)	(272)	(1,097)	(919)
Decrease (increase) in inventories	2,788	2,567	336	(1,736)	(3,665)
Increase (decrease) in trade payables	(3,355)	(6,364)	(1,545)	1,876	(1,423)
Increase (decrease) in other accounts payable and accrued expenses	542	(452)	(360)	(837)	(768)
Net cash provided by operating activities	(1,395)	5,030	3,757	(2,538)	3,034
<u>Cash flows from investing activities:</u>					
Purchase of property, plant and equipment	(3,063)	(4,611)	(879)	(1,509)	(6,377)
Proceeds from sale of property, plant and equipment	35	927	14	246	943
Investment in marketable securities	-	-	-	-	(18,974)
Investment in short-term deposits	(13,060)	(16,961)	(500)	-	(8,321)
Proceeds from sale of marketable securities	5,914	14,981	-	2,802	17,241
Proceeds from repayment of deposits	19,698	-	-	-	12,989
Purchase of intangible asset	(300)	-	(300)	-	-
Net cash provided by (used in) investing activities	9,224	(5,664)	(1,665)	1,539	(2,499)

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	Unaudited				Audited
<u>Cash flows from financing activities:</u>					
Repayment of long-term bank loans	(8,799)	(4,461)	(1,039)	(1,487)	(5,948)
Proceeds from long-term bank loans	6,000	-	-	-	-
Increase in short-term bank credit, net	4,200	-	1,358	-	-
Proceeds from exercise of stock options related to employees and directors	-	85	-	-	92
Proceeds from exercise of tradable options issued at the secondary offering	-	4,290	-	-	4,290
Dividend paid to shareholders	(8,000)	(551)	-	-	(551)
Net cash provided by (used in) financing activities	(6,599)	(637)	319	(1,487)	(2,117)
Total increase (decrease) in cash and cash equivalents	1,230	(1,271)	2,411	(2,486)	(1,582)
Cash and cash equivalents at beginning of period	2,384	3,966	1,203	5,181	3,966
Cash and cash equivalents at end of period	<u>\$ 3,614</u>	<u>\$ 2,695</u>	<u>\$ 3,614</u>	<u>\$ 2,695</u>	<u>\$ 2,384</u>