# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2019**

**OR**

☐ **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.)** |

**7201 West Friendly Avenue**
**Greensboro, North Carolina 27410**
**(Address of principal executive offices) (Zip Code)**

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

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.10 per share | UFI | New York Stock Exchange |

As of May 2, 2019, there were 18,423,538 shares of the registrant's common stock, par value $0.10 per share, outstanding.

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that relate to our plans, objectives, estimates and goals. Statements expressing expectations regarding our future, or projections or estimates relating to products, sales, revenues, expenditures, costs, strategies, initiatives or earnings, are typical of such statements and are made under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management's beliefs, assumptions and expectations about our future performance, considering the information currently available to management. The words "believe," "may," "could," "will," "should," "would," "anticipate," "plan," "estimate," "project," "expect," "intend," "seek," "strive" and words of similar import, or the negative of such words, identify or signal the presence of forward-looking statements. These statements are not statements of historical fact; they involve risks and uncertainties that may cause our actual results, performance or financial condition to differ materially from the expectations of future results, performance or financial condition that we express or imply in any forward-looking statement. Factors that could contribute to such differences include, but are not limited to:

- the competitive nature of the textile industry and the impact of global 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 the Company competes, including economic and political factors over which the Company has no control;
- changes in consumer spending, customer preferences, fashion trends and end uses for products;
- the financial condition of the Company's customers;
- the loss of a significant customer or brand partner;
- natural disasters, industrial accidents, power or water shortages, extreme weather conditions and other disruptions at one of our facilities;
- the success of the Company's strategic business initiatives;
- the volatility of financial and credit markets;
- the ability to service indebtedness and fund capital expenditures and strategic business initiatives;
- the availability of and access to credit on reasonable terms;
- changes in foreign currency exchange, interest and inflation rates;
- fluctuations in production costs;
- the ability to protect intellectual property;
- the strength and reputation of our brands;
- employee relations;
- the ability to attract, retain and motivate key employees;
- the impact of environmental, health and safety regulations;
- the impact of tax laws, the judicial or administrative interpretations of tax laws and/or changes in such laws or interpretations;
- the operating performance of joint ventures and other equity investments;
- the accurate financial reporting of information from equity method investees; and
- other factors discussed in "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended June 24, 2018 and in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018.

All such factors are difficult to predict, contain uncertainties that may materially affect actual results and may be beyond our control. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the impact of each such factor on the Company. Any forward-looking statement speaks only as of the date on which such statement is made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, except as may be required by federal securities law.

In light of all the above considerations, we reiterate that forward-looking statements are not guarantees of future performance, and we caution you not to rely on them as such.

**UNIFI, INC.**

**QUARTERLY REPORT ON FORM 10-Q**
**FOR THE THREE MONTHS AND NINE MONTHS ENDED MARCH 31, 2019**

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## PART I—FINANCIAL INFORMATION

**Item 1. Financial Statements**

### CONDENSED CONSOLIDATED BALANCE SHEETS
**(Unaudited)**
**(In thousands, except share and per share amounts)**

| | March 31, 2019 | June 24, 2018 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 27,898 | $ 44,890 |
| Receivables, net | 91,701 | 86,273 |
| Inventories | 130,981 | 126,311 |
| Income taxes receivable | 13,039 | 10,291 |
| Other current assets | 16,365 | 6,529 |
| Total current assets | 279,984 | 274,294 |
| Property, plant and equipment, net | 207,303 | 205,516 |
| Deferred income taxes | 3,159 | 3,288 |
| Investments in unconsolidated affiliates | 114,747 | 112,639 |
| Other non-current assets | 3,598 | 6,070 |
| Total assets | $ 608,791 | $ 601,807 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Accounts payable | $ 47,726 | $ 48,970 |
| Accrued expenses | 13,076 | 17,720 |
| Income taxes payable | 7,899 | 1,317 |
| Current portion of long-term debt | 16,054 | 16,996 |
| Total current liabilities | 84,755 | 85,003 |
| Long-term debt | 119,804 | 113,553 |
| Other long-term liabilities | 5,685 | 5,337 |
| Income tax payable | — | 470 |
| Deferred income taxes | 7,092 | 7,663 |
| Total liabilities | 217,336 | 212,026 |
| | | |
| Commitments and contingencies | | |
| | | |
| Common stock, $0.10 par value (500,000,000 shares authorized; 18,410,594 and 18,352,824 shares issued and outstanding as of March 31, 2019 and June 24, 2018, respectively) | 1,841 | 1,835 |
| Capital in excess of par value | 59,088 | 56,726 |
| Retained earnings | 373,666 | 371,753 |
| Accumulated other comprehensive loss | (43,140) | (40,533) |
| Total shareholders' equity | 391,455 | 389,781 |
| Total liabilities and shareholders' equity | $ 608,791 | $ 601,807 |

See accompanying notes to condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Unaudited)**
**(In thousands, except per share amounts)**

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 31, 2019 | March 25, 2018 | March 31, 2019 | March 25, 2018 |
| Net sales | $ 179,989 | $ 165,867 | $ 529,311 | $ 497,587 |
| Cost of sales | 166,198 | 149,311 | 481,345 | 435,063 |
| Gross profit | 13,791 | 16,556 | 47,966 | 62,524 |
| Selling, general and administrative expenses | 11,439 | 13,846 | 40,672 | 41,335 |
| Provision (benefit) for bad debts | 218 | 27 | 381 | (104) |
| Other operating expense, net | 1,359 | 1,100 | 1,218 | 1,763 |
| Operating income | 775 | 1,583 | 5,695 | 19,530 |
| Interest income | (149) | (182) | (448) | (444) |
| Interest expense | 1,256 | 1,187 | 4,078 | 3,562 |
| Loss on extinguishment of debt | — | — | 131 | — |
| Equity in earnings of unconsolidated affiliates | (1,873) | (544) | (3,126) | (3,842) |
| Income before income taxes | 1,541 | 1,122 | 5,060 | 20,254 |
| Provision (benefit) for income taxes | 3,070 | 946 | 3,606 | (684) |
| Net (loss) income | $ (1,529) | $ 176 | $ 1,454 | $ 20,938 |
| | | | | |
| Net (loss) income per common share: | | | | |
| Basic | $ (0.08) | $ 0.01 | $ 0.08 | $ 1.15 |
| Diluted | $ (0.08) | $ 0.01 | $ 0.08 | $ 1.12 |

See accompanying notes to condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**
**(Unaudited)**
**(In thousands)**

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 31, 2019 | March 25, 2018 | March 31, 2019 | March 25, 2018 |
| Net (loss) income | $ (1,529) | $ 176 | $ 1,454 | $ 20,938 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | 55 | 1,047 | (1,454) | 1,571 |
| Foreign currency translation adjustments for an unconsolidated affiliate | 102 | 439 | 144 | (154) |
| Changes in interest rate swaps, net of tax of $173, $0, $392 and $0, respectively | (572) | 1,142 | (1,297) | 2,634 |
| Other comprehensive (loss) income, net | (415) | 2,628 | (2,607) | 4,051 |
| Comprehensive (loss) income | $ (1,944) | $ 2,804 | $ (1,153) | $ 24,989 |

See accompanying notes to condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

| | For the Nine Months Ended | |
|---|---|---|
| | March 31, 2019 | March 25, 2018 |
| Cash and cash equivalents at beginning of year | $ 44,890 | $ 35,425 |
| *Operating activities:* | | |
| Net income | 1,454 | 20,938 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Equity in earnings of unconsolidated affiliates | (3,126) | (3,842) |
| Distributions received from unconsolidated affiliates | 1,380 | 11,226 |
| Depreciation and amortization expense | 17,242 | 16,844 |
| Non-cash compensation expense | 2,758 | 4,878 |
| Deferred income taxes | (190) | (8,441) |
| Other, net | (459) | (180) |
| Changes in assets and liabilities: | | |
| Receivables, net | (5,877) | (6,084) |
| Inventories | (13,409) | (9,424) |
| Other current assets | (1,338) | (493) |
| Accounts payable and accrued expenses | (4,523) | (323) |
| Income taxes | 3,388 | (464) |
| Other, net | 1,183 | 354 |
| Net cash (used in) provided by operating activities | (1,517) | 24,989 |
| *Investing activities:* | | |
| Capital expenditures | (19,199) | (17,091) |
| Other, net | 9 | — |
| Net cash used in investing activities | (19,190) | (17,091) |
| *Financing activities:* | | |
| Proceeds from ABL Revolver | 93,300 | 80,200 |
| Payments on ABL Revolver | (97,400) | (70,500) |
| Proceeds from ABL Term Loan | 20,000 | — |
| Payments on ABL Term Loan | (5,000) | (7,500) |
| Payments on capital lease obligations | (5,308) | (5,286) |
| Proceeds from stock option exercises | 273 | 219 |
| Payments of debt financing fees | (720) | — |
| Other | (1,017) | (597) |
| Net cash provided by (used in) financing activities | 4,128 | (3,464) |
| Effect of exchange rate changes on cash and cash equivalents | (413) | 717 |
| Net (decrease) increase in cash and cash equivalents | (16,992) | 5,151 |
| Cash and cash equivalents at end of period | $ 27,898 | $ 40,576 |

See accompanying notes to condensed consolidated financial statements.

## 1. Background

Unifi, Inc., a New York corporation formed in 1969 (together with its subsidiaries, "UNIFI," the "Company," "we," "us" or "our"), is a multi-national company that manufactures and sells innovative recycled and synthetic products made from polyester and nylon primarily to other yarn manufacturers and knitters and weavers (UNIFI's direct customers) that produce yarn and/or fabric for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets (UNIFI's indirect customers). We refer to these indirect customers as "brand partners." Polyester yarns include partially oriented yarn ("POY"), textured, solution and package dyed, twisted, beamed and draw wound yarns, and each is available in virgin or recycled varieties. Recycled solutions, made from both pre-consumer and post-consumer waste, include plastic bottle flake ("Flake") and polyester polymer beads ("Chip"). Nylon yarns include virgin or recycled textured, solution dyed and spandex covered yarns.

UNIFI maintains one of the textile industry's most comprehensive product offerings that include a range of specialized, premium value-added ("PVA") and commodity solutions, with principal geographic markets in the Americas and Asia.

UNIFI has direct manufacturing operations in four countries and participates in joint ventures in Israel and the United States, the most significant of which is a 34% non-controlling partnership interest in Parkdale America, LLC ("PAL"), a significant unconsolidated affiliate that produces cotton and synthetic yarns for sale to the global textile industry and apparel market.

## 2. Basis of Presentation; Condensed Notes

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information. As contemplated by the instructions of the Securities and Exchange Commission (the "SEC") to Form 10-Q, the following notes have been condensed and, therefore, do not contain all disclosures required in connection with annual financial statements. Reference should be made to UNIFI's year-end audited consolidated financial statements and related notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended June 24, 2018 (the "2018 Form 10-K").

The financial information included in this report has been prepared by UNIFI, without audit. In the opinion of management, all adjustments, which consist of normal, recurring adjustments, considered necessary for a fair statement of the results for interim periods have been included. Nevertheless, the results shown for interim periods are not necessarily indicative of results to be expected for the full year. The preparation of financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the amounts reported and certain financial statement disclosures. Actual results may vary from these estimates.

All amounts, except per share amounts, are presented in thousands (000s), except as otherwise noted.

The fiscal quarter for Unifi, Inc. and all of its wholly owned subsidiaries ended on March 31, 2019, the last Sunday in March. The three-month periods ended March 31, 2019 and March 25, 2018 consisted of 13 fiscal weeks. The nine-month periods ended March 31, 2019 and March 25, 2018 consisted of 40 and 39 fiscal weeks, respectively.

## 3. Recent Accounting Pronouncements

*Issued and Pending Adoption*

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*. The new guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new lease guidance is effective for UNIFI's fiscal 2020.

Upon adoption, UNIFI expects to make an accounting policy election to not reflect leases with an initial term of 12 months or less in the Consolidated Balance Sheets, recognizing those respective lease payments in the Consolidated Statements of Operations on a straight-line basis over the respective lease term. UNIFI also plans to elect the package of transition practical expedients which would allow UNIFI to carry forward prior conclusions related to: (i) whether any expired or existing contracts are leases or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for existing leases. UNIFI does not expect to elect the hindsight practical expedient.

UNIFI continues to assess the effect the guidance will have on its existing accounting policies and the Consolidated Financial Statements, and upon adoption, expects there will be approximately a 1% increase in total assets on the Consolidated Balance Sheets due to the recognition of right-of-use assets and corresponding lease liabilities.

Under the guidance in the SEC Staff Announcement on July 20, 2017 relating to the transition to ASU No. 2016-02, due to its status as a significant subsidiary of Unifi, Inc., PAL expects to adopt the new lease guidance in its fiscal 2020. PAL is currently evaluating the impact of the new lease guidance.

*Recently Adopted*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent ASUs were issued to provide clarity and defer the effective date of the new guidance. The new revenue recognition guidance (the "New Revenue Recognition Guidance") eliminated the transaction- and industry-specific revenue recognition guidance under previous GAAP and replaced it with a principles-based approach.

Upon adoption in fiscal 2019, UNIFI determined that the impact of the New Revenue Recognition Guidance is immaterial. Accordingly, UNIFI utilized the modified retrospective method of adoption and recorded the impact of open contracts as of June 24, 2018 as an adjustment to the opening balance of fiscal 2019 retained earnings, and prior period balances are not adjusted. Details of the fiscal 2019 adjustment follow. See Note 4, “Revenue Recognition,” for further detail regarding adoption and additional disclosures.

| | | |
|---|---|---|
| Revenue earned in fourth quarter fiscal 2018 related to contracts open at June 24, 2018 | $ | 8,593 |
| Less associated cost of sales | | 7,992 |
| Less associated income tax | | 142 |
| Adjustment to retained earnings for contracts open at June 24, 2018 | $ | 459 |

Under the guidance in the SEC Staff Announcement on July 20, 2017 relating to the transition to ASU No. 2014-09, due to its status as a significant subsidiary of Unifi, Inc., PAL expects to adopt the New Revenue Recognition Guidance in its fiscal 2019. PAL is currently evaluating the impact of the New Revenue Recognition Guidance.

Based on UNIFI’s review of ASUs issued since the filing of the 2018 Form 10-K, there have been no other newly issued or newly applicable accounting pronouncements that have had, or are expected to have, a significant impact on UNIFI’s consolidated financial statements.

## 4. Revenue Recognition

In fiscal 2019, UNIFI adopted the New Revenue Recognition Guidance. Details surrounding the impact of adoption and the additional disclosures follow.

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, which primarily occurs at a point in time, upon either shipment or delivery to the customer. Revenue is also recognized over time for certain contracts in which the associated inventory produced has no alternative use and for which enforceable right to payment exists, or the associated services are rendered. Revenue is measured as the amount of consideration UNIFI expects to receive in exchange for completing its performance obligations (i.e., transferring goods or providing services), which includes estimates for variable consideration. Variable consideration includes volume-based incentives and product claims, which are offered within certain contracts between UNIFI and its customers. Sales taxes and value added taxes assessed by governmental entities are excluded from the measurement of consideration expected to be received. Shipping and handling costs incurred after a customer has taken possession of our goods are treated as a fulfillment cost and are not considered a separate performance obligation.

The following table presents disaggregated revenues for UNIFI:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 31, 2019 | March 25, 2018 | March 31, 2019 | March 25, 2018 |
| Third-party textile manufacturer | $ 177,977 | $ 163,616 | $ 522,636 | $ 491,143 |
| Service | 2,012 | 2,251 | 6,675 | 6,444 |
| Net sales | $ 179,989 | $ 165,867 | $ 529,311 | $ 497,587 |

*Third-Party Textile Manufacturer*

Third-party textile manufacturer revenue is primarily generated through sales to direct customers. Such sales represent satisfaction of UNIFI’s performance obligations required by the associated revenue contracts. Each of UNIFI’s reportable segments derives revenue from sales to third-party textile manufacturers.

*Service Revenue*

Service revenue is primarily generated, as services are rendered, through fulfillment of toll manufacturing of textile products or transportation services governed by written agreements. Such toll manufacturing and transportation services represent satisfaction of UNIFI’s performance obligations required by the associated revenue contracts. The Polyester Segment derives service revenue for toll manufacturing, and the All Other category derives service revenue for transportation services.

*Variable Consideration*

*Volume-based incentives*

Volume-based incentives involve rebates or refunds of cash that are redeemable if the customer satisfies certain order volume thresholds during a defined time period. Under these incentive programs, UNIFI estimates the anticipated rebate to be paid and allocates a portion of the estimated cost of the rebate to each underlying sales transaction with the customer.

*Product claims*

UNIFI generally offers customers claims support or remuneration for defective products. UNIFI estimates the amount of its product sales that may be claimed as defective by its customers and records this estimate as a reduction of revenue in the period the related product revenue is recognized.

For all variable consideration, where appropriate, UNIFI estimates the amount using the expected value, which takes into consideration historical experience, current contractual requirements, specific known market events and forecasted customer buying and payment patterns. Overall, these reserves reflect UNIFI’s best estimates of the amount of consideration to which the customer is entitled based on the terms of the contracts.

*Impact of adoption of New Revenue Recognition Guidance*

The following table summarizes the impact of the adoption of the New Revenue Recognition Guidance on UNIFI's applicable financial statement line items for the nine months ended March 31, 2019. Any impact to other financial statement line items is insignificant and excluded from the below.

| Financial Statement Line Item | Treatment under previous Revenue Recognition Guidance | Adjustments in connection with New Revenue Recognition Guidance | As reported under New Revenue Recognition Guidance |
|---|---|---|---|
| Revenue | $ 528,414 | $ 897 | $ 529,311 |
| Cost of sales | $ 480,680 | $ 665 | $ 481,345 |
| Gross profit (loss) | $ 47,734 | $ 232 | $ 47,966 |
| Inventory | $ 139,610 | $ (8,629) | $ 130,981 |
| Contract assets | $ — | $ 9,454 | $ 9,454 |

Contract assets represents the estimated revenue attributable to UNIFI in connection with completed performance obligations under contracts with customers for which revenue is recognized over time. The contract assets are classified to receivables when the right to payment becomes unconditional. The $9,454 change in the contract assets balance from June 24, 2018 to March 31, 2019 represents the routine recognition of satisfied performance obligations, in connection with adoption of and treatment under the New Revenue Recognition Guidance.

## 5. Receivables, Net

Receivables, net consists of the following:

| | March 31, 2019 | June 24, 2018 |
|---|---|---|
| Customer receivables | $ 94,419 | $ 87,633 |
| Allowance for uncollectible accounts | (2,398) | (2,059) |
| Reserves for yarn quality claims | (1,052) | (564) |
| Net customer receivables | 90,969 | 85,010 |
| Other receivables | 732 | 1,263 |
| Total receivables, net | $ 91,701 | $ 86,273 |

There have been no material changes in UNIFI’s allowance for uncollectible accounts or reserves for yarn quality claims since June 24, 2018.

## 6. Inventories

Inventories consists of the following:

| | March 31, 2019 | June 24, 2018 |
|---|---|---|
| Raw materials | $ 49,725 | $ 45,448 |
| Supplies | 8,859 | 7,314 |
| Work in process | 9,034 | 8,834 |
| Finished goods | 65,912 | 66,314 |
| Gross inventories | 133,530 | 127,910 |
| Inventory reserves | (2,549) | (1,599) |
| Total inventories | $ 130,981 | $ 126,311 |

In connection with UNIFI’s utilization of the modified retrospective method of adopting the New Revenue Recognition Guidance, prior period balances were not adjusted to reflect the impact that the New Revenue Recognition Guidance would have had on prior periods. See Note 4, “Revenue Recognition,” for further detail regarding the impact of the New Revenue Recognition Guidance to fiscal 2019.

## 7. Other Current Assets

Other current assets consists of the following:

| | March 31, 2019 | June 24, 2018 |
|---|---|---|
| Contract assets | $ 9,454 | $ — |
| Vendor deposits | 3,456 | 3,703 |
| Prepaid expenses | 1,847 | 1,802 |
| Value-added taxes receivable | 1,608 | 1,024 |
| Total other current assets | $ 16,365 | $ 6,529 |

Vendor deposits primarily relates to down payments made toward the purchase of inventory. Prepaid expenses consists of advance payments for general operating expenses. Value-added taxes receivable relates to recoverable taxes associated with the sales and purchase activities of UNIFI's foreign operations.

## 8. Property, Plant and Equipment, Net

Property, plant and equipment ("PP&E"), net consists of the following:

| | March 31, 2019 | June 24, 2018 |
|---|---|---|
| Land | $ 2,848 | $ 2,860 |
| Land improvements | 15,201 | 15,118 |
| Buildings and improvements | 160,593 | 157,354 |
| Assets under capital leases | 31,977 | 34,568 |
| Machinery and equipment | 599,851 | 589,237 |
| Computers, software and office equipment | 22,636 | 19,723 |
| Transportation equipment | 5,815 | 5,029 |
| Construction in progress | 8,719 | 8,651 |
| Gross PP&E | 847,640 | 832,540 |
| Less: accumulated depreciation | (632,700) | (619,654) |
| Less: accumulated amortization – capital leases | (7,637) | (7,370) |
| Total PP&E, net | $ 207,303 | $ 205,516 |

Depreciation expense and repair and maintenance expenses were as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 31, 2019 | March 25, 2018 | March 31, 2019 | March 25, 2018 |
| Depreciation expense | $ 5,257 | $ 5,387 | $ 16,181 | $ 15,747 |
| Repair and maintenance expenses | 5,301 | 5,024 | 16,148 | 14,528 |

## 9. Accrued Expenses

Accrued expenses consists of the following:

| | March 31, 2019 | June 24, 2018 |
|---|---|---|
| Payroll and fringe benefits | $ 7,128 | $ 10,833 |
| Severance | 1,764 | 362 |
| Other | 4,184 | 6,525 |
| Total accrued expenses | $ 13,076 | $ 17,720 |

Other consists primarily of accruals for utilities, property taxes, employee-related claims and payments, interest, marketing expenses, freight expenses, rent, other non-income related taxes and deferred revenue.

## 10. Long-Term Debt

*Debt Obligations*

The following table presents the total balances outstanding for UNIFI's debt obligations, their scheduled maturity dates and the weighted average interest rates for borrowings as well as the applicable current portion of long-term debt:

| | Scheduled Maturity Date | Weighted Average Interest Rate as of March 31, 2019 | Principal Amounts as of March 31, 2019 | Principal Amounts as of June 24, 2018 |
|---|---|---|---|---|
| ABL Revolver | December 2023 | 3.7% | $ 24,000 | $ 28,100 |
| ABL Term Loan (1) | December 2023 | 3.3% | 100,000 | 85,000 |
| Capital lease obligations | (2) | 3.9% | 12,879 | 18,107 |
| Total debt | | | 136,879 | 131,207 |
| Current portion of capital lease obligations | | | (6,054) | (6,996) |
| Current portion of other long-term debt | | | (10,000) | (10,000) |
| Unamortized debt issuance costs | | | (1,021) | (658) |
| Total long-term debt | | | $ 119,804 | $ 113,553 |

(1) Includes the effects of interest rate swaps.
(2) Scheduled maturity dates for capital lease obligations range from August 2019 to November 2027.

*ABL Facility*

On December 18, 2018, Unifi, Inc. and certain of its subsidiaries entered into a Third Amendment to Amended and Restated Credit Agreement and Second Amendment to Amended and Restated Guaranty and Security Agreement (the “2018 Amendment”). The 2018 Amendment amended the Amended and Restated Credit Agreement, dated as of March 26, 2015, among Unifi, Inc. and a syndicate of lenders, as previously amended (as further amended by the 2018 Amendment, the “Credit Agreement”). The Credit Agreement provides for a $200,000 senior secured credit facility (the “ABL Facility”), including a $100,000 revolving credit facility (the “ABL Revolver”) and a term loan that can be reset up to a maximum amount of $100,000, once per fiscal year, if certain conditions are met (the “ABL Term Loan”). The ABL Facility has a maturity date of December 18, 2023.

The 2018 Amendment made the following changes to the Credit Agreement, among others: (i) extended the Maturity Date from March 26, 2020 to December 18, 2023, and (ii) decreased the Applicable Margin pricing structure for Base Rate Loans and LIBOR Rate Loans by 25 basis points. In addition, in connection with the 2018 Amendment, the principal amount of the Term Loan was reset from $80,000 to $100,000. Net proceeds from this Term Loan reset were used to pay down the amount outstanding on the ABL Revolver.

*Scheduled Debt Maturities*

The following table presents the scheduled maturities of UNIFI’s outstanding debt obligations for the remainder of fiscal 2019, the following four fiscal years and thereafter:

| | Fiscal 2019 | Fiscal 2020 | Fiscal 2021 | Fiscal 2022 | Fiscal 2023 | Thereafter |
|---|---|---|---|---|---|---|
| ABL Revolver | $ — | $ — | $ — | $ — | $ — | $ 24,000 |
| ABL Term Loan | 2,500 | 10,000 | 10,000 | 10,000 | 10,000 | 57,500 |
| Capital lease obligations | 1,704 | 5,559 | 2,633 | 2,417 | 90 | 476 |
| Total | $ 4,204 | $ 15,559 | $ 12,633 | $ 12,417 | $ 10,090 | $ 81,976 |

**11. Other Long-Term Liabilities**

Other long-term liabilities consists of the following:

| | March 31, 2019 | June 24, 2018 |
|---|---|---|
| Supplemental post-employment plan | $ 2,674 | $ 3,045 |
| Uncertain tax positions | 1,121 | 131 |
| Other | 1,890 | 2,161 |
| Total other long-term liabilities | $ 5,685 | $ 5,337 |

Other primarily includes certain retiree and post-employment medical and disability liabilities, deferred revenue and deferred energy incentive credits.

**12. Income Taxes**

The provision (benefit) for income taxes was as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 31, 2019 | March 25, 2018 | March 31, 2019 | March 25, 2018 |
| Provision (benefit) for income taxes | $ 3,070 | $ 946 | $ 3,606 | $ (684) |
| Effective tax rate | 199.2% | 84.3% | 71.3% | (3.4)% |

*U.S. Tax Reform*

On December 22, 2017, the U.S. government enacted comprehensive tax legislation H.R. 1, formerly known as the Tax Cuts and Jobs Act. H.R. 1 includes significant changes to existing tax law, including a permanent reduction to the U.S. federal corporate income tax rate from 35% to 21%, full expensing for investments in new and used qualified property, additional limitations on the deductions for executive compensation and interest expense, and the transition of the U.S. international tax system from a worldwide tax to a territorial tax system. As a fiscal-year taxpayer, certain provisions of H.R. 1 impacted UNIFI in fiscal 2018, including the change in the U.S. federal corporate income tax rate and the one-time transition tax (“toll charge”), while other provisions became effective for UNIFI at the beginning of fiscal 2019. The enactment of H.R. 1 resulted in recording a total provisional tax benefit of $396 for the period ending June 24, 2018. For a full description of the impact of H.R. 1 for the year ended June 24, 2018, refer to Note 14, “Income Taxes,” in the 2018 Form 10-K.

In the second quarter of fiscal 2019, UNIFI recorded an additional tax benefit of $1,734 related to the enactment of H.R. 1. In the third quarter of fiscal 2019, UNIFI recorded tax expense of $880 related to the enactment of H.R. 1, which increased the tax rate for the three-month period by 57.1%, for a total year-to-date benefit of $854. The total tax benefit related to the enactment of H.R. 1 was $1,322, primarily consisting of $3,997 of tax benefit related to the re-measurement of deferred tax balances, and $2,747 of tax expense related to the toll charge, net of foreign tax credits. Although UNIFI no longer considers these amounts to be provisional, the income tax effects of H.R. 1 may change following future legislation or further interpretation of H.R. 1 based on the publication of guidance from the U.S. Internal Revenue Service (the “IRS”) and state tax authorities.

The Global Intangible Low-Taxed Income ("GILTI") provisions included in H.R. 1 require that certain income earned by foreign subsidiaries must be currently included in the gross income of the U.S. shareholder. These provisions are effective for UNIFI in fiscal 2019. The GILTI provisions are complex and subject to continuing regulatory interpretation by the IRS. UNIFI has elected to recognize GILTI as a current-period expense. Under this policy, UNIFI has not provided deferred taxes related to temporary differences that, upon their reversal, will affect the amount of income subject to GILTI in the period.

*Income Tax Expense*

UNIFI's provision for income taxes for the nine months ended March 31, 2019 and March 25, 2018 has been calculated by applying an estimate of the annual effective tax rate for the full fiscal year to year-to-date income. Tax effects of significant, unusual or infrequently occurring items are excluded from the estimated annual effective tax rate calculation and recognized in the interim period in which they occur.

The effective tax rate for the three months ended March 31, 2019 was higher than the U.S. federal statutory rate primarily due to the effect of the GILTI provisions enacted in H.R. 1, adjustments to enactment date tax reform impacts, losses in tax jurisdictions for which no tax benefit could be recognized, and foreign withholding taxes.

The effective tax rate for the nine months ended March 31, 2019 was higher than the U.S. federal statutory rate primarily due to the effects of the GILTI provisions enacted in H.R. 1, losses in tax jurisdictions for which no tax benefit could be recognized, earnings taxed at higher rates in foreign jurisdictions, and foreign withholding taxes. These rate detriments were partially offset by adjustments to enactment date tax reform impacts.

The effective tax rate for the three months ended March 25, 2018 was higher than the U.S. federal statutory rate primarily due to an increase in the valuation allowance for the Company's investment in PAL, the rate change impact on a U.S. net loss carryforward generated in that three-month period that will be used at a lower tax rate in the future, and additional limitations on the deductibility of compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "IRC").

The effective tax rate for the nine months ended March 25, 2018 was lower than the U.S. federal statutory rate primarily due to the one-time tax benefit resulting from the revaluation of UNIFI's domestic deferred tax balances for the lower U.S. statutory tax rate, the release of a valuation allowance on certain historical net operating losses ("NOLs") and foreign income being taxed at lower rates. These benefits were partially offset by a provisional amount for the toll charge, net of foreign tax credits, and losses in tax jurisdictions for which no tax benefit can currently be recognized.

UNIFI regularly assesses the outcomes of both completed and ongoing examinations to ensure that its provision for income taxes is sufficient. Certain returns that remain open to examination have utilized carryforward tax attributes generated in prior tax years, including NOLs, which could potentially be revised upon examination.

*Valuation Allowance*

UNIFI regularly assesses whether it is more-likely-than-not that some portion or all of its deferred tax assets will not be realized. UNIFI considers the scheduled reversal of taxable temporary differences, taxable income in carryback years, projected future taxable income and tax planning strategies in making this assessment. Since UNIFI operates in multiple jurisdictions, the assessment is made on a jurisdiction-by-jurisdiction basis, taking into account the effects of local tax law.

The components of UNIFI's deferred tax valuation allowance are as follows:

| | March 31, 2019 | June 24, 2018 |
|---|---|---|
| Investment in a former domestic unconsolidated affiliate | $ (3,942) | $ (3,942) |
| Equity-method investment in PAL | (1,443) | (1,580) |
| Certain losses carried forward (1) | (1,562) | (1,562) |
| State NOLs | (166) | (169) |
| Other foreign NOLs | (1,695) | (2,460) |
| Foreign tax credits | (15,113) | (5,430) |
| Disallowed interest expense | (382) | — |
| Total deferred tax valuation allowance | $ (24,303) | $ (15,143) |

(1) Certain U.S. NOLs and capital losses outside the U.S. consolidated tax filing group.

**13. Shareholders' Equity**

For the three-months ended March 31, 2019:

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 30, 2018 | 18,383 | $ 1,838 | $ 59,619 | $ 375,195 | $ (42,725) | $ 393,927 |
| Options exercised | 6 | — | 29 | — | — | 29 |
| Conversion of restricted stock units | 24 | 3 | (3) | — | — | — |
| Stock-based compensation | 9 | 1 | (314) | — | — | (313) |
| Common stock withheld in satisfaction of tax withholding obligations under net share settle transactions | (11) | (1) | (243) | — | — | (244) |
| Other comprehensive loss, net of tax | — | — | — | — | (415) | (415) |
| Net loss | — | — | — | (1,529) | — | (1,529) |
| Balance at March 31, 2019 | 18,411 | $ 1,841 | $ 59,088 | $ 373,666 | $ (43,140) | $ 391,455 |

For the nine-months ended March 31, 2019:

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at June 24, 2018 | 18,353 | $ 1,835 | $ 56,726 | $ 371,753 | $ (40,533) | $ 389,781 |
| Options exercised | 22 | 2 | 271 | — | — | 273 |
| Conversion of restricted stock units | 41 | 4 | (4) | — | — | — |
| Stock-based compensation | 10 | 1 | 2,471 | — | — | 2,472 |
| Common stock withheld in satisfaction of tax withholding obligations under net share settle transactions | (15) | (1) | (376) | — | — | (377) |
| Other comprehensive loss, net of tax | — | — | — | — | (2,607) | (2,607) |
| Adoption of the New Revenue Recognition Guidance | — | — | — | 459 | — | 459 |
| Net income | — | — | — | 1,454 | — | 1,454 |
| Balance at March 31, 2019 | 18,411 | $ 1,841 | $ 59,088 | $ 373,666 | $ (43,140) | $ 391,455 |

For the three-months ended March 25, 2018:

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 24, 2017 | 18,291 | $ 1,829 | $ 55,215 | $ 360,702 | $ (31,457) | $ 386,289 |
| Options exercised | 17 | 1 | (1) | — | — | — |
| Conversion of restricted stock units | 26 | 3 | (3) | — | — | — |
| Common stock withheld in satisfaction of tax withholding obligations under net share settle transactions | (6) | (1) | (196) | — | — | (197) |
| Stock-based compensation | — | 1 | 1,184 | — | — | 1,185 |
| Other comprehensive income, net of tax | — | — | — | — | 2,628 | 2,628 |
| Net income | — | — | — | 176 | — | 176 |
| Balance at March 25, 2018 | 18,328 | $ 1,833 | $ 56,199 | $ 360,878 | $ (28,829) | $ 390,081 |

For the nine-months ended March 25, 2018:

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at June 25, 2017 | 18,230 | $ 1,823 | $ 51,923 | $ 339,940 | $ (32,880) | $ 360,806 |
| Options exercised | 71 | 7 | 212 | — | — | 219 |
| Conversion of restricted stock units | 29 | 3 | (3) | — | — | — |
| Common stock withheld in satisfaction of tax withholding obligations under net share settle transactions | (6) | (1) | (196) | — | — | (197) |
| Stock-based compensation | 4 | 1 | 4,263 | — | — | 4,264 |
| Other comprehensive income, net of tax | — | — | — | — | 4,051 | 4,051 |
| Net income | — | — | — | 20,938 | — | 20,938 |
| Balance at March 25, 2018 | 18,328 | $ 1,833 | $ 56,199 | $ 360,878 | $ (28,829) | $ 390,081 |

No dividends were paid during the nine months ended March 31, 2019 or in the two most recently completed fiscal years.

***Stock Repurchase Program***

On April 23, 2014, UNIFI announced that its Board of Directors (the "Board") had approved a stock repurchase program (the "2014 SRP") under which UNIFI was authorized to acquire up to $50,000 of its common stock. UNIFI made no repurchases of its shares of common stock during the nine months ended March 31, 2019. Through October 31, 2018 (the date the 2014 SRP was terminated, as discussed below), UNIFI had repurchased a total of 806 shares, at an average price of $27.79 (for a total of $22,409, inclusive of commission costs) pursuant to the 2014 SRP.

On October 31, 2018, UNIFI announced that the Board had terminated the 2014 SRP and approved a new stock repurchase program (the "2018 SRP") under which UNIFI is authorized to acquire up to $50,000 of its common stock. Under the 2018 SRP, purchases will be made from time to time in the open market at prevailing market prices, through private transactions or block trades. The timing and amount of repurchases will depend on market conditions, share price, applicable legal requirements and other factors. The share repurchase authorization is discretionary and has no expiration date.

As of March 31, 2019, $50,000 remained available for repurchase under the 2018 SRP.

## 14. Stock-Based Compensation

On October 23, 2013, UNIFI's shareholders approved the Unifi, Inc. 2013 Incentive Compensation Plan (the "2013 Plan"). The 2013 Plan replaced the 2008 Unifi, Inc. Long-Term Incentive Plan (the "2008 LTIP"). No additional awards can be granted under the 2008 LTIP; however, prior awards outstanding under the 2008 LTIP remain subject to that plan's provisions. The 2013 Plan authorized the issuance of 1,000 shares of common stock, subject to certain increases in the event outstanding awards under the 2008 LTIP expire, are forfeited or otherwise terminate unexercised.

The 2013 Plan expired in accordance with its terms on October 24, 2018, and the Unifi, Inc. Amended and Restated 2013 Incentive Compensation Plan (the "Amended 2013 Plan") became effective on that same day, upon approval by shareholders at UNIFI's annual meeting of shareholders held on October 31, 2018. The Amended 2013 Plan increased the number of shares available for future issuance pursuant to awards granted under the Amended 2013 Plan to 1,250 and removed provisions no longer applicable due to the recent changes to Section 162(m) of the IRC. The material terms and provisions of the Amended 2013 Plan are otherwise similar to those of the 2013 Plan. No additional awards can be granted under the 2013 Plan; however, prior awards outstanding under the 2013 Plan remain subject to that plan's provisions.

The following table provides information as of March 31, 2019 with respect to the number of securities remaining available for future issuance under the Amended 2013 Plan:

| | |
|---|---|
| Authorized under the Amended 2013 Plan | 1,250 |
| Plus: Awards expired, forfeited or otherwise terminated unexercised | 125 |
| Less: Awards granted to employees | (265) |
| Less: Awards granted to non-employee directors | (89) |
| Available for issuance under the Amended 2013 Plan | 1,021 |

During the nine months ended March 31, 2019 and March 25, 2018, UNIFI granted stock options to purchase 223 and 73 shares of common stock, respectively.

During the nine months ended March 31, 2019 and March 25, 2018, UNIFI granted 74 and 116 restricted stock units, respectively.

During the nine months ended March 31, 2019 and March 25, 2018, UNIFI granted 47 and 0 vested share units, respectively.

During the nine months ended March 31, 2019 and March 25, 2018, UNIFI granted 10 and 4 shares of common stock, respectively.

## 15. Fair Value of Financial Instruments and Non-Financial Assets and Liabilities

UNIFI may use derivative financial instruments such as foreign currency forward contracts or interest rate swaps to reduce its ongoing business exposures to fluctuations in foreign currency exchange rates or interest rates. UNIFI does not enter into derivative contracts for speculative purposes. The following table presents details regarding UNIFI's hedging activities:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 31, 2019 | March 25, 2018 | March 31, 2019 | March 25, 2018 |
| Interest expense | $ 1,256 | $ 1,187 | $ 4,078 | $ 3,562 |
| Decrease (increase) in fair value of interest rate swaps | 745 | (1,142) | 1,689 | (2,634) |
| Impact of interest rate swaps on interest expense | (111) | 65 | (217) | 319 |

For the nine months ended March 31, 2019 and March 25, 2018, there were no significant changes to UNIFI's assets and liabilities measured at fair value, and there were no transfers into or out of the levels of the fair value hierarchy.

UNIFI believes that there have been no significant changes to its credit risk profile or the interest rates available to UNIFI for debt issuances with similar terms and average maturities, and UNIFI estimates that the fair values of its debt obligations approximate the carrying amounts. Other financial instruments include cash and cash equivalents, receivables, accounts payable and accrued expenses. The financial statement carrying amounts of these items approximate the fair value due to their short-term nature.

## 16. Accumulated Other Comprehensive Loss

The components of and the changes in accumulated other comprehensive loss, net of tax, as applicable, consist of the following:

| | Foreign Currency Translation Adjustments | Changes in Interest Rate Swaps | Accumulated Other Comprehensive Loss |
|---|---|---|---|
| Balance at June 24, 2018 | $ (42,268) | $ 1,735 | $ (40,533) |
| Other comprehensive loss, net of tax | (1,310) | (1,297) | (2,607) |
| Balance at March 31, 2019 | $ (43,578) | $ 438 | $ (43,140) |

A summary of the after-tax effects of the components of other comprehensive (loss) income, net for the three-month and nine-month periods ended March 31, 2019 and March 25, 2018 is included in the accompanying condensed consolidated statements of comprehensive (loss) income.

## 17. Earnings Per Share

The components of the calculation of earnings (loss) per share ("EPS") are as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 31, 2019 | March 25, 2018 | March 31, 2019 | March 25, 2018 |
| Net (loss) income | $ (1,529) | $ 176 | $ 1,454 | $ 20,938 |
| Basic weighted average shares | 18,394 | 18,309 | 18,381 | 18,275 |
| Net potential common share equivalents – stock options and stock units | — | 392 | 361 | 342 |
| Diluted weighted average shares | 18,394 | 18,701 | 18,742 | 18,617 |
| Excluded from diluted weighted average shares: | | | | |
| Anti-dilutive common share equivalents | 359 | 96 | 388 | 163 |

The calculation of EPS is based on the weighted average number of Unifi, Inc.'s common shares outstanding for the applicable period. The calculation of diluted EPS presents the effect of all potential dilutive common shares that were outstanding during the respective period, unless the effect of doing so is anti-dilutive.

## 18. Investments in Unconsolidated Affiliates and Variable Interest Entities

UNIFI currently maintains investments in three entities classified as unconsolidated affiliates: PAL; U.N.F. Industries, Ltd. ("UNF"); and UNF America LLC ("UNFA"). As of March 31, 2019, UNIFI's investment in PAL was $112,431 and UNIFI's combined investments in UNF and UNFA were $2,316, each of which is reflected within investments in unconsolidated affiliates in the accompanying condensed consolidated balance sheets.

*Parkdale America, LLC*

PAL is a limited liability company treated as a partnership for income tax reporting purposes. UNIFI accounts for its investment in PAL using the equity method of accounting. PAL is subject to price risk related to anticipated fixed-price yarn sales. To protect the gross margin of these sales, PAL may enter into cotton futures to manage changes in raw material prices. The derivative instruments used are listed and traded on an exchange and are valued using quoted prices classified within Level 1 of the fair value hierarchy. As of March 31, 2019, PAL had no futures contracts designated as cash flow hedges.

The reconciliation between UNIFI's share of the underlying equity of PAL and its investment is as follows:

| | | |
|---|---|---|
| Underlying equity as of March 31, 2019 | $ | 130,522 |
| Initial excess capital contributions | | 53,363 |
| Impairment charge recorded by UNIFI in fiscal 2007 | | (74,106) |
| Anti-trust lawsuit against PAL in which UNIFI did not participate | | 2,652 |
| Investment as of March 31, 2019 | $ | 112,431 |

*U.N.F. Industries, Ltd.*

Raw material and production services for UNF are provided by Nilit Ltd. under separate supply and services agreements. UNF's fiscal year end is December 31, and it is a registered Israeli private company located in Migdal Ha-Emek, Israel.

*UNF America LLC*

Raw material and production services for UNFA are provided by Nilit America Inc. under separate supply and services agreements. UNFA's fiscal year end is December 31, and it is a limited liability company treated as a partnership for income tax reporting purposes located in Ridgeway, Virginia.

In conjunction with the formation of UNFA, UNIFI entered into a supply agreement with UNF and UNFA whereby UNIFI agreed to purchase all of its first quality nylon POY requirements for texturing (subject to certain exceptions) from either UNF or UNFA. The agreement has no stated minimum purchase quantities and pricing is negotiated every six months, based on market rates. As of March 31, 2019, UNIFI's open purchase orders related to this agreement were $4,269.

UNIFI's raw material purchases under this supply agreement consist of the following:

| | For the Nine Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | |
| UNF | $ | 1,478 | $ | 1,463 |
| UNFA | | 17,199 | | 16,291 |
| Total | $ | 18,677 | $ | 17,754 |

As of March 31, 2019 and June 24, 2018, UNIFI had combined accounts payable due to UNF and UNFA of $1,831 and $2,301, respectively.

UNIFI has determined that UNF and UNFA are variable interest entities and that UNIFI is the primary beneficiary of these entities, based on the terms of the supply agreement discussed above. As a result, these entities should be consolidated with UNIFI's financial results. As UNIFI purchases substantially all of the output from the two entities, the two entities' balance sheets constitute 3% or less of UNIFI's current assets, total assets and total liabilities, and such balances are not expected to comprise a larger portion in the future, UNIFI has not included the accounts of UNF and UNFA in its consolidated financial statements. The financial results of UNF and UNFA are included in UNIFI's consolidated financial statements with a one-month lag, using the equity method of accounting and with intercompany profits eliminated in accordance with UNIFI's accounting policy. Other than the supply agreement discussed above, UNIFI does not provide any other commitments or guarantees related to either UNF or UNFA.

Condensed balance sheet and income statement information for UNIFI's unconsolidated affiliates (including reciprocal balances) is presented in the tables below. PAL is defined as significant and its information is separately disclosed. PAL does not meet the criteria for segment reporting.

| | As of March 31, 2019 | | | | | | As of June 24, 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | PAL | | Other | | Total | | PAL | | Other | | Total | |
| Current assets | $ | 298,563 | $ | 6,860 | $ | 305,423 | $ | 289,683 | $ | 7,598 | $ | 297,281 |
| Noncurrent assets | | 158,033 | | 732 | | 158,765 | | 162,242 | | 875 | | 163,117 |
| Current liabilities | | 69,389 | | 2,961 | | 72,350 | | 71,026 | | 3,722 | | 74,748 |
| Noncurrent liabilities | | 3,321 | | — | | 3,321 | | 3,389 | | — | | 3,389 |
| Shareholders' equity and capital accounts | | 383,886 | | 4,631 | | 388,517 | | 377,510 | | 4,751 | | 382,261 |
| | | | | | | | | | | | | |
| UNIFI's portion of undistributed earnings | | 43,452 | | 1,040 | | 44,492 | | 41,429 | | 887 | | 42,316 |

| | For the Three Months Ended March 31, 2019 | | | For the Three Months Ended March 25, 2018 | | |
|---|---|---|---|---|---|---|
| | PAL | Other | Total | PAL | Other | Total |
| Net sales | $ 225,160 | $ 6,217 | $ 231,377 | $ 199,473 | $ 5,764 | $ 205,237 |
| Gross profit | 8,638 | 1,149 | 9,787 | 6,078 | 1,001 | 7,079 |
| Income from operations | 3,868 | 733 | 4,601 | 80 | 601 | 681 |
| Net income | 4,142 | 740 | 4,882 | 1,409 | 611 | 2,020 |
| Depreciation and amortization | 9,285 | 48 | 9,333 | 9,081 | 48 | 9,129 |
| Cash received by PAL under cotton rebate program | 3,053 | — | 3,053 | 3,220 | — | 3,220 |
| Earnings recognized by PAL for cotton rebate program | 3,195 | — | 3,195 | 3,386 | — | 3,386 |
| Distributions received | — | 750 | 750 | 1,798 | 750 | 2,548 |

| | For the Nine Months Ended March 31, 2019 | | | For the Nine Months Ended March 25, 2018 | | |
|---|---|---|---|---|---|---|
| | PAL | Other | Total | PAL | Other | Total |
| Net sales | $ 626,812 | $ 19,256 | $ 646,068 | $ 578,841 | $ 18,213 | $ 597,054 |
| Gross profit | 18,841 | 3,587 | 22,428 | 22,167 | 3,583 | 25,750 |
| Income from operations | 5,663 | 2,284 | 7,947 | 8,114 | 2,295 | 10,409 |
| Net income | 6,334 | 2,381 | 8,715 | 8,357 | 2,327 | 10,684 |
| Depreciation and amortization | 30,576 | 143 | 30,719 | 29,566 | 142 | 29,708 |
| Cash received by PAL under cotton rebate program | 8,773 | — | 8,773 | 10,162 | — | 10,162 |
| Earnings recognized by PAL for cotton rebate program | 9,444 | — | 9,444 | 9,832 | — | 9,832 |
| Distributions received | 130 | 1,250 | 1,380 | 8,976 | 2,250 | 11,226 |

## 19. Commitments and Contingencies

*Collective Bargaining Agreements*

While employees of UNIFI's Brazilian operations are unionized, none of the labor force employed by UNIFI's domestic or other foreign subsidiaries is currently covered by a collective bargaining agreement.

*Environmental*

On September 30, 2004, Unifi Kinston, LLC ("UK"), a subsidiary of Unifi, Inc., completed its acquisition of polyester filament manufacturing assets located in Kinston, North Carolina from Invista S.a.r.l. ("INVISTA"). The land for the Kinston site was leased pursuant to a 99-year ground lease (the "Ground Lease") with E.I. DuPont de Nemours ("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 Environmental Quality ("DEQ") pursuant to the Resource Conservation and Recovery Act Corrective Action program. The program requires DuPont to identify all potential areas of environmental concern ("AOCs"), assess the extent of containment at the identified AOCs and remediate the AOCs to comply with applicable regulatory standards. Effective March 20, 2008, UK entered into a lease termination agreement associated with conveyance of certain assets at the Kinston site to DuPont. This agreement terminated the Ground Lease and relieved UK of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to UK's period of operation of the Kinston site, which was from 2004 to 2008. At this time, UNIFI has no basis to determine if or when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same.

UK continues to own property (referred to as the "Kentec site") acquired in the 2004 transaction with INVISTA that has contamination from DuPont's prior operations and is monitored by DEQ. The Kentec site has been remediated by DuPont, and DuPont has received authority from DEQ to discontinue further remediation, other than natural attenuation. Prior to transfer of responsibility to UK, DuPont and UK had a duty to monitor and report the environmental status of the Kentec site to DEQ. UK expected to assume that responsibility in the first half of calendar 2019 and was entitled to receive from DuPont seven years of monitoring and reporting costs, less certain adjustments. UK would then assume sole responsibility for any future remediation of the site.

Effective April 10, 2019 UK assumed sole remediator responsibility of the Kentec site pursuant to its contractual obligations with INVISTA and received $180 of net monitoring and reporting costs due from DuPont. In connection with monitoring, UK expects to sample and report to DEQ annually. UNIFI expects no active site remediation will be required and has no basis to determine any costs that may be associated with active remediation.

*Leases*

UNIFI routinely leases sales and administrative office space, warehousing and distribution centers, manufacturing space, transportation equipment, manufacturing equipment, and other information technology and office equipment from third parties.

UNIFI has assumed various financial obligations and commitments in the normal course of its operating and financing activities. Financial obligations are considered to represent known future cash payments that UNIFI is required to make under existing contractual arrangements, such as debt and lease agreements.

## 20. Related Party Transactions

For details regarding the nature of certain related party relationships, see Note 24, “Related Party Transactions,” to the consolidated financial statements in the 2018 Form 10-K.

There were no related party receivables as of March 31, 2019 or June 24, 2018.

Related party payables consists of the following:

| | March 31, 2019 | June 24, 2018 |
|---|---|---|
| Salem Leasing Corporation (included within accounts payable) | $ 321 | $ 306 |
| Salem Leasing Corporation (capital lease obligation) | 831 | 875 |
| Total related party payables | $ 1,152 | $ 1,181 |

Related party transactions in excess of $120 for the current or prior two fiscal years consist of the following amounts for the periods presented:

| | | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|---|
| Affiliated Entity | Transaction Type | March 31, 2019 | March 25, 2018 | March 31, 2019 | March 25, 2018 |
| Salem Leasing Corporation | Transportation equipment costs and capital lease debt service | $ 1,006 | $ 1,028 | $ 3,046 | $ 2,978 |
| Salem Global Logistics, Inc. | Freight service income | — | 35 | — | 127 |

## 21. Business Segment Information

UNIFI defines operating segments as components of the organization for which discrete financial information is available and operating results are evaluated on a regular basis by UNIFI’s Principal Executive Officer, who is the chief operating decision maker (the “CODM”), in order to assess performance and allocate resources. Characteristics of the organization which were relied upon in making the determination of reportable segments include the nature of the products sold, the organization’s internal structure, the trade policies in the geographic regions in which UNIFI operates, and the information that is regularly reviewed by the CODM for the purpose of assessing performance and allocating resources.

UNIFI’s operating segments are aggregated into three reportable segments (the Polyester Segment, the Nylon Segment and the International Segment) based on similarities between the operating segments’ economic characteristics, nature of products sold, type of customer, methods of distribution and regulatory environment.

- The operations within the Polyester Segment exhibit similar long-term economic characteristics and primarily sell into an economic trading zone covered by the North American Free Trade Agreement (“NAFTA”) and the Dominican Republic—Central America Free Trade Agreement (“CAFTA-DR”) (collectively, the regions comprising these economic trading zones are referred to as “NACA”) to similar customers utilizing similar methods of distribution. These operations derive revenues primarily from polyester-based products with sales primarily to other yarn manufacturers and knitters and weavers that produce yarn and/or fabric for the apparel, hosiery, automotive, home furnishings, industrial and other end-use markets. The Polyester Segment consists of sales and manufacturing operations in the United States and El Salvador.
- The operations within the Nylon Segment exhibit similar long-term economic characteristics and primarily sell into NACA to similar customers utilizing similar methods of distribution. The Nylon Segment includes an immaterial operating segment in Colombia that sells similar nylon-based textile products to similar customers in Colombia and Mexico utilizing similar methods of distribution. These operations derive revenues primarily from nylon-based products with sales to knitters and weavers that produce fabric primarily for the apparel and hosiery markets. The Nylon Segment consists of sales and manufacturing operations in the United States and Colombia.
- The operations within the International Segment exhibit similar long-term economic characteristics and sell to similar customers utilizing similar methods of distribution in geographic regions that are outside of NACA. The International Segment primarily sells polyester-based products to knitters and weavers that produce fabric for the apparel, automotive, home furnishings, industrial and other end-use markets primarily in the South American and Asian regions. The International Segment includes a manufacturing location in Brazil and sales offices in Brazil, China and Sri Lanka.

In addition to UNIFI’s reportable segments, the selected financial information presented below includes an All Other category. All Other consists primarily of for-hire transportation services. For-hire transportation services revenue is derived from performing common carrier services utilizing UNIFI’s fleet of transportation equipment.

The operations within All Other (i) are not subject to review by the CODM at a level consistent with UNIFI’s other operations, (ii) are not regularly evaluated using the same metrics applied to UNIFI’s other operations and (iii) do not qualify for aggregation with an existing reportable segment. Therefore, such operations are excluded from reportable segments.

UNIFI evaluates the operating performance of its segments based upon Segment Profit, which represents segment gross profit plus segment depreciation expense. This measurement of segment profit best aligns segment reporting with the current assessments and evaluations performed by, and information provided to, the CODM.

The accounting policies for the segments are consistent with UNIFI's accounting policies. Intersegment sales are omitted from the below financial information, as they are (i) insignificant to UNIFI's segments and eliminated from consolidated reporting and (ii) excluded from segment evaluations performed by the CODM.

Selected financial information is presented below:

| | For the Three Months Ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Polyester | Nylon | International | All Other | Total |
| Net sales | $ 95,745 | $ 25,563 | $ 57,681 | $ 1,000 | $ 179,989 |
| Cost of sales | 92,221 | 23,251 | 49,784 | 942 | 166,198 |
| Gross profit | 3,524 | 2,312 | 7,897 | 58 | 13,791 |
| Segment depreciation expense | 3,858 | 516 | 420 | 47 | 4,841 |
| Segment Profit | $ 7,382 | $ 2,828 | $ 8,317 | $ 105 | $ 18,632 |

| | For the Three Months Ended March 25, 2018 | | | | |
|---|---|---|---|---|---|
| | Polyester | Nylon | International | All Other | Total |
| Net sales | $ 88,763 | $ 24,036 | $ 51,989 | $ 1,079 | $ 165,867 |
| Cost of sales | 83,948 | 23,023 | 41,317 | 1,023 | 149,311 |
| Gross profit | 4,815 | 1,013 | 10,672 | 56 | 16,556 |
| Segment depreciation expense | 4,022 | 560 | 436 | 66 | 5,084 |
| Segment Profit | $ 8,837 | $ 1,573 | $ 11,108 | $ 122 | $ 21,640 |

| | For the Nine Months Ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Polyester | Nylon | International | All Other | Total |
| Net sales | $ 281,665 | $ 76,159 | $ 168,271 | $ 3,216 | $ 529,311 |
| Cost of sales | 269,444 | 69,671 | 139,275 | 2,955 | 481,345 |
| Gross profit | 12,221 | 6,488 | 28,996 | 261 | 47,966 |
| Segment depreciation expense | 12,047 | 1,576 | 1,146 | 190 | 14,959 |
| Segment Profit | $ 24,268 | $ 8,064 | $ 30,142 | $ 451 | $ 62,925 |

| | For the Nine Months Ended March 25, 2018 | | | | |
|---|---|---|---|---|---|
| | Polyester | Nylon | International | All Other | Total |
| Net sales | $ 266,817 | $ 75,966 | $ 151,694 | $ 3,110 | $ 497,587 |
| Cost of sales | 244,513 | 68,563 | 119,050 | 2,937 | 435,063 |
| Gross profit | 22,304 | 7,403 | 32,644 | 173 | 62,524 |
| Segment depreciation expense | 11,862 | 1,649 | 1,249 | 195 | 14,955 |
| Segment Profit | $ 34,166 | $ 9,052 | $ 33,893 | $ 368 | $ 77,479 |

The reconciliations of segment gross profit to consolidated (loss) income before income taxes are as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 31, 2019 | March 25, 2018 | March 31, 2019 | March 25, 2018 |
| Polyester | $ 3,524 | $ 4,815 | $ 12,221 | $ 22,304 |
| Nylon | 2,312 | 1,013 | 6,488 | 7,403 |
| International | 7,897 | 10,672 | 28,996 | 32,644 |
| All Other | 58 | 56 | 261 | 173 |
| Segment gross profit | 13,791 | 16,556 | 47,966 | 62,524 |
| Selling, general and administrative expenses | 11,439 | 13,846 | 40,672 | 41,335 |
| Provision (benefit) for bad debts | 218 | 27 | 381 | (104) |
| Other operating expense, net | 1,359 | 1,100 | 1,218 | 1,763 |
| Operating income | 775 | 1,583 | 5,695 | 19,530 |
| Interest income | (149) | (182) | (448) | (444) |
| Interest expense | 1,256 | 1,187 | 4,078 | 3,562 |
| Loss on extinguishment of debt | — | — | 131 | — |
| Equity in earnings of unconsolidated affiliates | (1,873) | (544) | (3,126) | (3,842) |
| Income before income taxes | $ 1,541 | $ 1,122 | $ 5,060 | $ 20,254 |

The reconciliations of segment total assets to consolidated total assets are as follows:

| | March 31, 2019 | June 24, 2018 |
|---|---|---|
| Polyester | $ 291,625 | $ 284,261 |
| Nylon | 60,904 | 57,378 |
| International | 100,411 | 95,006 |
| Segment total assets | 452,940 | 436,645 |
| Other current assets | 19,496 | 30,945 |
| Other PP&E | 19,091 | 17,373 |
| Other non-current assets | 2,516 | 4,205 |
| Investments in unconsolidated affiliates | 114,748 | 112,639 |
| Total assets | $ 608,791 | $ 601,807 |

### 22. Supplemental Cash Flow Information

Cash payments for interest and taxes consist of the following:

| | For the Nine Months Ended | |
|---|---|---|
| | March 31, 2019 | March 25, 2018 |
| Interest, net of capitalized interest of $178 and $137, respectively | $ 4,053 | $ 3,254 |
| Income tax payments, net | 617 | 7,824 |

Cash payments for taxes shown above consist primarily of income and withholding tax payments made by UNIFI in both U.S. and foreign jurisdictions, net of refunds.

*Non-Cash Investing and Financing Activities*

As of March 31, 2019 and June 24, 2018, $2,205 and $3,187, respectively, were included in accounts payable for unpaid capital expenditures. As of March 25, 2018 and June 25, 2017, $2,308 and $3,234, respectively, were included in accounts payable for unpaid capital expenditures.

### 23. Subsequent Events

On April 30, 2019, the Board approved an amendment to UNIFI’s Amended and Restated By-laws, effective as of that date, to change its fiscal year end from the last Sunday in the month of June to the Sunday in June or July nearest June 30 of each year.  Because June 30, 2019 falls on a Sunday, UNIFI’s fiscal year end date for fiscal 2019 will remain June 30, 2019 as previously disclosed, and no transition report will be filed.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors that have affected UNIFI's operations, along with material changes in financial condition, during the periods included in the accompanying condensed consolidated financial statements. A reference to a "note" in this section refers to the accompanying notes to condensed consolidated financial statements. A reference to the "current period" refers to the three-month period ended March 31, 2019, while a reference to the "prior period" refers to the three-month period ended March 25, 2018. A reference to the "current nine-month period" refers to the nine-month period ended March 31, 2019, while a reference to the "prior nine-month period" refers to the nine-month period ended March 25, 2018. Such references may be accompanied by certain phrases for added clarity. The current period and prior period each consisted of 13 fiscal weeks.

The current nine-month period consisted of 40 fiscal weeks, while the prior nine-month period consisted of 39 fiscal weeks. UNIFI's seasonal shutdown period for its operations in North and Central America (which typically occurs around December 25 each year) (the "seasonal shutdown period") occurred in the second quarter of fiscal 2019 but fell in the third quarter of fiscal 2018. Accordingly, both the current period and the current nine-month period include one additional shipping week compared to both the respective prior period and the prior nine-month period.

Our discussions in this Item 2 focus on our results during, or as of, the three months and nine months ended March 31, 2019 and March 25, 2018, and, to the extent applicable, any material changes from the information discussed in the 2018 Form 10-K or other important intervening developments or information. These discussions should be read in conjunction with the 2018 Form 10-K for more detailed and background information about our business, operations and financial condition.

All amounts, except per share amounts, are presented in thousands (000s), except as otherwise noted.

### Overview and Significant General Matters

UNIFI's business focuses on delivering products and solutions to customers and brand partners throughout the world, leveraging our internal manufacturing capabilities and an enhanced global supply chain that delivers a diverse range of synthetic and recycled fibers and polymers. This strategic and synergistic focus includes three supporting pillars: (1) engaging in strategic relationships with like-minded entities, (2) growing our existing portfolio of technologies and capabilities and (3) expanding our supply chain to best serve indirect and direct customers. We refer to this three-pillared strategy as our "Partner, Innovate and Grow" strategy. UNIFI remains committed to this strategy, which it believes will increase profitability and generate improved cash flows from operations.

UNIFI has three reportable segments for its operations – the Polyester Segment, the Nylon Segment and the International Segment – as well as certain ancillary operations that include for-hire transportation services, which comprise an All Other category. The ancillary operations classified within All Other are insignificant for all periods presented; therefore, UNIFI's discussion and analysis of those activities is generally limited to their impact on consolidated results, where appropriate. In discussion of its operating results in this report, UNIFI refers to its operations in the "NACA region," which is the region comprised of the trade zones covered by NAFTA and CAFTA-DR. In previous reports, we have referred to these regions as "the Region," and we have referred to our operations within this region as our "Regional operations."

Significant general matters for the current period and the current nine-month period include the following, each of which is addressed in more detail below:

- Net sales for the current period increased $14,122 or 8.5%, to $179,989, compared to $165,867 for the prior period, and increased $19,446, or 11.7%, when excluding the impact of foreign currency translation;
- Net sales for the current nine-month period increased $31,724, or 6.4%, to $529,311, compared to $497,587 for the prior nine-month period, and increased $48,966, or 9.8%, when excluding the impact of foreign currency translation;
- Revenues from PVA products for the current period grew 13.5% compared to the prior period (or 17.3% when excluding the impact of foreign currency translation), and represented approximately 47% of consolidated net sales;
- Gross margin was 7.7% for the current period, compared to 10.0% for the prior period, and was 9.1% for the current nine-month period, compared to 12.6% for the prior nine-month period;
- Operating income was $775 for the current period, compared to $1,583 for the prior period, and was $5,695 for the current nine-month period, compared to $19,530 for the prior nine-month period; and
- Diluted EPS was $(0.08) for the current period, compared to $0.01 for the prior period, and was $0.08 for the current nine-month period, compared to $1.12 for the prior nine-month period.

Consistent with the market and financial trends that have affected its business in the last several quarters, UNIFI continued to experience a number of challenges in the current period. External pressures in the NACA business included elevated raw material costs and suppressed demand for certain yarns, along with elevated levels of low-cost imports of polyester yarn from China into the U.S. The volatile nature of these external pressures made navigating the NACA environment even more difficult. Internal pressures included the implementation of selling price increases that left us less competitive, elevated inventory levels, and the result of weaker leverage of our cost structure. The combination of these external and internal pressures caused weaker fixed cost absorption and lower operating margins.

UNIFI experienced rising raw material costs throughout most of calendar 2018, which peaked in October 2018. By December 2018, UNIFI experienced a pullback in those costs and expected a slight decline in polyester raw material costs to favorably impact the current period. However, during the current period, raw material costs for UNIFI's global operations had not retreated sufficiently enough to offset the ongoing gross margin pressure created by sustained and elevated levels of low-cost yarn imports into the U.S. textile market.

Amid these new and ongoing pressures, UNIFI has and is continuing to take actions to reduce costs. Prior to the current period, UNIFI's annualized run-rate for selling, general and administrative expenses ("SG&A expenses") was approaching $60,000. In connection with recent and ongoing cost reduction efforts, UNIFI is targeting a decrease of approximately 15% to that $60,000 annualized run-rate, such that fiscal 2020 SG&A expenses are expected to be approximately $50,000.

In addition, UNIFI remains committed to pursuing relief from the competitive pressures that have resulted from the elevated levels of low-cost and subsidized polyester textured yarn entering the U.S. market from countries such as China and India, which increased approximately 79% from 2013 to 2017 and which continued to grow during the first half of 2018. Based on import data obtained prior to and subsequent to UNIFI's filing of anti-dumping and countervailing duties petitions in October 2018, an increase of approximately 27% in polyester textured yarn imports from China into the U.S. placed even more pressure on UNIFI's U.S. margins and competitiveness than had been anticipated in recent months. UNIFI believes this surge in imports was due to efforts to stockpile imported yarn before preliminary duties are imposed. Accordingly, we filed a "critical circumstances" allegation on April 2, 2019, asking the U.S. Department of Commerce ("Commerce") to apply any countervailing and antidumping duties applicable to Chinese imports on a retroactive basis. Commerce preliminarily granted this request on April 19, 2019, and on April 29, 2019 announced preliminary countervailing duties on imports of polyester textured yarn from (i) China at rates of 32% or more and (ii) India at rates of 7% or more. For Chinese imports, these duties will apply retroactively dating 90 days prior to the date that the duties go into effect. Preliminary antidumping duty determinations are expected on June 26, 2019, and these duties will also apply retroactively for Chinese imports dating 90 days prior to the date that the duties go into effect. Final determinations of dumping, subsidization and injury are expected by the end of calendar 2019. These positive announcements are critical steps in UNIFI's efforts to better compete against imported yarns that have flooded the U.S. market in recent years.

**Key Performance Indicators and Non-GAAP Financial Measures**

UNIFI continuously reviews performance indicators to measure its success. These performance indicators form the basis of management's discussion and analysis included below:

- sales volume and revenue for UNIFI and for each reportable segment;
- gross profit and gross margin for UNIFI and for each reportable segment;
- Net (loss) income and diluted EPS;
- Segment Profit, which represents segment gross profit plus segment depreciation expense;
- unit conversion margin, which represents unit net sales price less unit raw material costs, for UNIFI and for each reportable segment;
- working capital, which represents current assets less current liabilities;
- Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), which represents Net (loss) income before net interest expense, income tax expense and depreciation and amortization expense;
- Adjusted EBITDA, which represents EBITDA adjusted to exclude equity in earnings of PAL, and, from time to time, certain other adjustments necessary to understand and compare the underlying results of UNIFI; and
- Adjusted Working Capital (receivables plus inventory and other current assets, less accounts payable and accrued expenses).

EBITDA, Adjusted EBITDA and Adjusted Working Capital (collectively, the "non-GAAP financial measures") are not determined in accordance with GAAP and should not be considered a substitute for performance measures determined in accordance with GAAP. The calculations of the non-GAAP financial measures are subjective, based on management's belief as to which items should be included or excluded in order to provide the most reasonable and comparable view of the underlying operating performance of the business. We may, from time to time, modify the amounts used to determine our non-GAAP financial measures. When applicable, management's discussion and analysis includes specific consideration for items that comprise the reconciliations of its non-GAAP financial measures.

We believe that these non-GAAP financial measures better reflect UNIFI's underlying operations and performance and that their use, as operating performance measures, provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets, among otherwise comparable companies.

Management uses Adjusted EBITDA (i) as a measurement of operating performance because it assists us in comparing our operating performance on a consistent basis, as it removes the impact of (a) items directly related to our asset base (primarily depreciation and amortization) and (b) items that we would not expect to occur as a part of our normal business on a regular basis; (ii) for planning purposes, including the preparation of our annual operating budget; (iii) as a valuation measure for evaluating our operating performance and our capacity to incur and service debt, fund capital expenditures and expand our business; and (iv) as one measure in determining the value of other acquisitions and dispositions. Adjusted EBITDA is a key performance metric utilized in the determination of variable compensation. We also believe Adjusted EBITDA is an appropriate supplemental measure of debt service capacity, because it serves as a high-level proxy for cash generated from operations and is relevant to our fixed charge coverage ratio. Equity in earnings of PAL is excluded from Adjusted EBITDA because such results do not reflect our operating performance.

Management uses Adjusted Working Capital as an indicator of UNIFI's production efficiency and ability to manage inventory and receivables. In the first quarter of fiscal 2019, in connection with changes to balance sheet presentation required by the adoption of the New Revenue Recognition Guidance, UNIFI updated the definition of Adjusted Working Capital to include other current assets for current and historical calculations of the non-GAAP financial measure. Other current assets includes amounts capitalized for future conversion into inventory or receivables (e.g., vendor deposits and contract assets), and management believes that its inclusion in the definition of Adjusted Working Capital improves the understanding of UNIFI capital that is supporting production and sales activity.

**Non-GAAP Reconciliations**

***EBITDA and Adjusted EBITDA***

The reconciliations of the amounts reported under GAAP for Net (loss) income to EBITDA and Adjusted EBITDA are as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 31, 2019 | March 25, 2018 | March 31, 2019 | March 25, 2018 |
| Net (loss) income | $ (1,529) | $ 176 | $ 1,454 | $ 20,938 |
| Interest expense, net | 1,107 | 1,005 | 3,630 | 3,118 |
| Provision (benefit) for income taxes | 3,070 | 946 | 3,606 | (684) |
| Depreciation and amortization expense | 5,535 | 5,617 | 17,015 | 16,566 |
| EBITDA | 8,183 | 7,744 | 25,705 | 39,938 |
| | | | | |
| Equity in earnings of PAL | (1,409) | (479) | (2,154) | (2,957) |
| EBITDA excluding PAL | 6,774 | 7,265 | 23,551 | 36,981 |
| | | | | |
| Other adjustments (1) | — | — | — | — |
| Adjusted EBITDA | $ 6,774 | $ 7,265 | $ 23,551 | $ 36,981 |

(1) For the current periods and the prior periods, no other adjustments were necessary to reconcile Net (loss) income to Adjusted EBITDA.

Amounts presented in the reconciliations above may not be consistent with amounts included in the accompanying condensed consolidated financial statements. Any such inconsistencies are insignificant and are integral to the reconciliations.

***Working Capital and Adjusted Working Capital***

See the discussion under the heading “Working Capital” within “Liquidity and Capital Resources” below.

**Review of Results of Operations**

**Three Months Ended March 31, 2019 Compared to Three Months Ended March 25, 2018**

***Consolidated Overview***

The components of Net (loss) income, each component as a percentage of net sales and the percentage increase or decrease over the prior period amounts, are as follows:

| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 179,989 | 100.0 | $ 165,867 | 100.0 | 8.5 |
| Cost of sales | 166,198 | 92.3 | 149,311 | 90.0 | 11.3 |
| Gross profit | 13,791 | 7.7 | 16,556 | 10.0 | (16.7) |
| Selling, general and administrative expenses | 11,439 | 6.4 | 13,846 | 8.3 | (17.4) |
| Provision for bad debts | 218 | 0.1 | 27 | — | nm |
| Other operating expense, net | 1,359 | 0.8 | 1,100 | 0.7 | 23.5 |
| Operating income | 775 | 0.4 | 1,583 | 1.0 | (51.0) |
| Interest expense, net | 1,107 | 0.6 | 1,005 | 0.6 | 10.1 |
| Equity in earnings of unconsolidated affiliates | (1,873) | (1.1) | (544) | (0.3) | nm |
| Income before income taxes | 1,541 | 0.9 | 1,122 | 0.7 | 37.3 |
| Provision for income taxes | 3,070 | 1.7 | 946 | 0.6 | nm |
| Net (loss) income | $ (1,529) | (0.8) | $ 176 | 0.1 | nm |

nm – Not meaningful

***Consolidated Net Sales***

Consolidated net sales for the current period increased by $14,122, or 8.5%, as compared to the prior period due to (i) an additional shipping week for our NACA operations, caused by the timing of UNIFI’s seasonal shutdown period, (ii) sales growth of PVA products and (iii) increased sales pricing driven by higher raw material costs. This increase in net sales was partially offset by unfavorable foreign currency translation of approximately $5,300.

Consolidated sales volumes were 10.4% higher as compared to the prior period. The increase in net sales volumes was driven primarily by (i) the additional shipping week, (ii) continued growth in sales of Flake and Chip in the Polyester Segment and (iii) growth in sales of Chip and other PVA products in the International Segment, partially offset by competitive pressures in the U.S. and Brazil. Sales continue to expand in the International Segment as our PVA portfolio resonates with our brand partners that are focused on sustainable solutions. We believe the softness in the domestic environment and competition from imports continue to be challenges for the domestic textile supply chain. Our Nylon Segment results are also unfavorably impacted by the ongoing global trend of declining demand for nylon socks, ladies’ hosiery and intimate apparel.

Consolidated average sales prices decreased 1.8%, as price increases made in calendar 2018 in response to rising costs were more than offset by (i) unfavorable foreign currency translation and (ii) the disproportionate growth of lower-priced Flake and Chip.

PVA products at the end of the current period comprised approximately 47% of consolidated net sales, up from 45% at the end of fiscal 2018, and higher than the 44% ratio for the prior period. Within the PVA product category, our customers can choose between various solutions, some of which carry higher margins than others. Accordingly, growth in PVA sales does not necessarily translate into higher margins or increased profitability on a consolidated basis.

Unfavorable foreign currency translation is primarily associated with the weakening of the Brazilian Real ("BRL") and the Chinese Renminbi ("RMB").

***Consolidated Gross Profit***

Gross profit for the current period decreased by $2,765, or 16.7%, as compared to the prior period. The gross profit decline is primarily attributable to (i) lower fixed cost absorption in the Polyester Segment due to lower textured yarn volumes, (ii) lower conversion margin in the International Segment, (iii) unfavorable foreign currency translation of approximately $1,100 and (iv) disproportionate growth of lower margin products.

***Consolidated Selling, General and Administrative Expenses***

The change in SG&A expenses is as follows:

| | | |
|---|---|---|
| SG&A expenses for the prior period | $ | 13,846 |
| Decrease in compensation expenses | | (2,672) |
| Decrease due to foreign currency translation | | (261) |
| Other net decreases | | (200) |
| Increase in professional fees | | 726 |
| SG&A expenses for the current period | $ | 11,439 |

Total SG&A expenses were lower for the current period compared to the prior period, primarily as a result of significant forfeitures of share-based compensation and variable compensation in connection with executive officer departures that occurred in fiscal 2019. The decrease was partially offset by higher fees paid to professional service providers, primarily for legal and audit services.

***Consolidated Provision for Bad Debts***

There is no significant activity reflected in the current period or the prior period for bad debts.

***Consolidated Other Operating Expense, Net***

Other operating expense, net primarily reflects severance expense recorded in the current period and foreign currency transaction losses recorded in the prior period.

***Consolidated Interest Expense, Net***

There is no significant change for interest expense, net from the prior period to the current period. The components of consolidated interest expense, net are as follows:

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | |
| Interest and fees on the ABL Facility | $ | 1,073 | $ | 952 |
| Other interest | | 183 | | 196 |
| Subtotal of interest on debt obligations | | 1,256 | | 1,148 |
| Other components of interest expense | | — | | 39 |
| Total interest expense | | 1,256 | | 1,187 |
| Interest income | | (149) | | (182) |
| Interest expense, net | $ | 1,107 | $ | 1,005 |

***Consolidated Earnings from Unconsolidated Affiliates***

The components of earnings from unconsolidated affiliates are as follows:

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | |
| Earnings from PAL | $ | (1,409) | $ | (479) |
| Earnings from nylon joint ventures | | (464) | | (65) |
| Total equity in earnings of unconsolidated affiliates | $ | (1,873) | $ | (544) |
| | | | | |
| As a percentage of consolidated income before income taxes | | 121.5% | | 48.5% |

The increase in equity earnings of unconsolidated affiliates was primarily attributable to improved operating leverage and, particularly for PAL, an improved raw material cost environment.

***Consolidated Income Taxes***

Consolidated income taxes is as follows:

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | |
| Provision for income taxes | $ | 3,070 | $ | 946 |
| Effective tax rate | | 199.2% | | 84.3% |

The effective tax rate is subject to variation due to numerous factors, including variability in the amount of pre-tax and taxable income, the mix of income by jurisdiction, changes in deferred tax valuation allowances, and changes in statutes, regulations and case law. Additionally, the impacts of discrete items, non-deductible expenses, and the tax on global intangible low taxed income is greater when pre-tax income is lower.

The effective tax rate for the current period was higher than the U.S. federal statutory rate primarily due to the effect of the GILTI provisions enacted in H.R. 1, losses in tax jurisdictions for which no tax benefit could be recognized, and foreign withholding taxes. Tax expense for the current period also included $880 of expense related to the enactment of H.R. 1, which increased the effective tax rate by 57.1%.

The effective tax rate for the prior period was higher than the U.S. statutory tax rate primarily due to an increase in the valuation allowance for the Company's investment in PAL, the rate change impact on a U.S. net loss carryforward generated in the prior period that would have been used at a lower tax rate in the future, and additional limitations on the deductibility of compensation under IRC Section 162(m).

***Consolidated Net (Loss) Income***

Net (loss) income for the current period was $(1,529), or $(0.08) per share, compared to $176, or $0.01 per share, for the prior period. The decrease was primarily attributable to lower gross profit and a higher effective tax rate, partially offset by (i) higher earnings from PAL, (ii) lower SG&A expenses and (iii) one additional shipping week in the current period for our NACA operations.

**Segment Overview**

Following is a discussion and analysis of the revenue and profitability performance of UNIFI's reportable segments for the current period.

***Polyester Segment***

The components of Segment Profit, each component as a percentage of net sales and the percentage increase or decrease over the prior period amounts for the Polyester Segment, are as follows:

| | For the Three Months Ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | March 31, 2019 | | | March 25, 2018 | | | |
| | | | % of Net Sales | | | % of Net Sales | % Change |
| Net sales | $ | 95,745 | 100.0 | $ | 88,763 | 100.0 | 7.9 |
| Cost of sales | | 92,221 | 96.3 | | 83,948 | 94.6 | 9.9 |
| Gross profit | | 3,524 | 3.7 | | 4,815 | 5.4 | (26.8) |
| Depreciation expense | | 3,858 | 4.0 | | 4,022 | 4.6 | (4.1) |
| Segment Profit | $ | 7,382 | 7.7 | $ | 8,837 | 10.0 | (16.5) |
| | | | | | | | |
| Segment net sales as a percentage of consolidated amounts | | 53.2% | | | 53.5% | | |
| Segment Profit as a percentage of consolidated amounts | | 39.6% | | | 40.8% | | |

The change in net sales for the Polyester Segment is as follows:

| | | |
|---|---|---|
| Net sales for the prior period | $ | 88,763 |
| Increase due to an additional shipping week in the current period | | 6,032 |
| Net change in average selling price and sales mix | | 1,633 |
| Decrease in underlying sales volumes | | (683) |
| Net sales for the current period | $ | 95,745 |

The increase in net sales for the Polyester Segment from the prior period to the current period was primarily attributable to (i) one additional shipping week in the current period due to the timing of the seasonal shutdown period for our NACA operations, (ii) higher selling prices in response to several months of raw material related price increases during calendar 2018 and (iii) higher sales of dyed yarn in connection with the dyed yarn portfolio acquisition that closed in the fourth quarter of fiscal 2018, partially offset by (a) a weaker sales mix and (b) lower volumes of higher-priced textured yarn products.

The change in Segment Profit for the Polyester Segment is as follows:

| | | |
|---|---|---|
| Segment Profit for the prior period | $ | 8,837 |
| Net decrease in underlying margins | | (2,135) |
| Decrease in underlying sales volumes | | (66) |
| Increase due to an additional shipping week in the current period | | 746 |
| Segment Profit for the current period | $ | 7,382 |

The decrease in Segment Profit for the Polyester Segment from the prior period to the current period was primarily attributable to (i) an unfavorable sales mix characterized by higher volumes of lower-margin products like Flake, Chip and certain dyed yarns and lower volumes of higher-margin products like textured yarn and (ii) weaker fixed cost absorption due to lower textured yarn volumes. These decreases were partially offset by the additional shipping week in our NACA operations in the current period due to the timing of the seasonal shutdown period.

***Nylon Segment***

The components of Segment Profit, each component as a percentage of net sales and the percentage increase or decrease over the prior period amounts for the Nylon Segment are as follows:

| | For the Three Months Ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | March 31, 2019 | | | March 25, 2018 | | | |
| | | | % of Net Sales | | | % of Net Sales | % Change |
| Net sales | $ | 25,563 | 100.0 | $ | 24,036 | 100.0 | 6.4 |
| Cost of sales | | 23,251 | 91.0 | | 23,023 | 95.8 | 1.0 |
| Gross profit | | 2,312 | 9.0 | | 1,013 | 4.2 | 128.2 |
| Depreciation expense | | 516 | 2.1 | | 560 | 2.3 | (7.9) |
| Segment Profit | $ | 2,828 | 11.1 | $ | 1,573 | 6.5 | 79.8 |
| | | | | | | | |
| Segment net sales as a percentage of consolidated amounts | | 14.2% | | | 14.5% | | |
| Segment Profit as a percentage of consolidated amounts | | 15.2% | | | 7.3% | | |

The change in net sales for the Nylon Segment is as follows:

| | | |
|---|---|---|
| Net sales for the prior period | $ | 24,036 |
| Increase due to an additional shipping week in the current period | | 1,295 |
| Net change in average selling price and sales mix | | 705 |
| Decrease in underlying sales volumes | | (473) |
| Net sales for the current period | $ | 25,563 |

The increase in net sales for the Nylon Segment from the prior period to the current period was primarily attributable to one additional shipping week in our NACA operations in the current period due to the timing of the seasonal shutdown period and raw material related price increases in the current period.

The change in Segment Profit for the Nylon Segment is as follows:

| | | |
|---|---|---|
| Segment Profit for the prior period | $ | 1,573 |
| Net increase in underlying margins | | 1,255 |
| Segment Profit for the current period | $ | 2,828 |

The increase in Segment Profit for the Nylon Segment from the prior period to the current period was primarily attributable to improved conversion margin based on the timing of raw material purchases and related price increases.  Sales volumes impacts were insignificant to this comparison.

***International Segment***

The components of Segment Profit, each component as a percentage of net sales and the percentage increase or decrease over the prior period amounts for the International Segment are as follows:

| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 57,681 | 100.0 | $ 51,989 | 100.0 | 10.9 |
| Cost of sales | 49,784 | 86.3 | 41,317 | 79.5 | 20.5 |
| Gross profit | 7,897 | 13.7 | 10,672 | 20.5 | (26.0) |
| Depreciation expense | 420 | 0.7 | 436 | 0.9 | (3.7) |
| Segment Profit | $ 8,317 | 14.4 | $ 11,108 | 21.4 | (25.1) |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 32.0% | | 31.3% | | |
| Segment Profit as a percentage of consolidated amounts | 44.6% | | 51.3% | | |

The change in net sales for the International Segment is as follows:

| | |
|---|---|
| Net sales for the prior period | $ 51,989 |
| Increase in sales volumes | 7,852 |
| Net change in average selling price and sales mix | 3,060 |
| Unfavorable foreign currency translation effects (primarily RMB and BRL) | (5,220) |
| Net sales for the current period | $ 57,681 |

The increase in net sales for the International Segment from the prior period to the current period was primarily attributable to (i) higher sales volumes for our Asian subsidiaries due to growth in our REPREVE® portfolios and (ii) higher pricing due to increased raw material costs, partially offset by unfavorable foreign currency translation primarily due to the weakening of the BRL and the RMB against the U.S. Dollar (“USD”) during the current period.

The RMB average exchange rate was 6.75 RMB/USD and 6.36 RMB/USD for the current period and the prior period, respectively. The BRL weighted average exchange rate was 3.77 BRL/USD and 3.25 BRL/USD for the current period and the prior period, respectively.

The change in Segment Profit for the International Segment is as follows:

| | |
|---|---|
| Segment Profit for the prior period | $ 11,108 |
| Net decrease in underlying margins | (3,294) |
| Unfavorable foreign currency translation effects (primarily RMB and BRL) | (1,158) |
| Increase in sales volumes | 1,661 |
| Segment Profit for the current period | $ 8,317 |

The decrease in Segment Profit for the International Segment was primarily attributable to lower conversion margin due to pressures from increased raw material costs and competition, along with unfavorable foreign currency translation effects as the BRL and the RMB were comparably weaker during the current period, partially offset by margins associated with overall higher sales volumes.

**Review of Results of Operations**

**Nine Months Ended March 31, 2019 Compared to Nine Months Ended March 25, 2018**

***Consolidated Overview***

The components of Net income, each component as a percentage of net sales and the percentage increase or decrease over the prior nine-month period amounts, are as follows:

| | For the Nine Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 529,311 | 100.0 | $ 497,587 | 100.0 | 6.4 |
| Cost of sales | 481,345 | 90.9 | 435,063 | 87.4 | 10.6 |
| Gross profit | 47,966 | 9.1 | 62,524 | 12.6 | (23.3) |
| Selling, general and administrative expenses | 40,672 | 7.7 | 41,335 | 8.3 | (1.6) |
| Provision (benefit) for bad debts | 381 | 0.1 | (104) | — | nm |
| Other operating expense, net | 1,218 | 0.2 | 1,763 | 0.4 | (30.9) |
| Operating income | 5,695 | 1.1 | 19,530 | 3.9 | (70.8) |
| Interest expense, net | 3,630 | 0.7 | 3,118 | 0.6 | 16.4 |
| Loss on extinguishment of debt | 131 | — | — | — | — |
| Equity in earnings of unconsolidated affiliates | (3,126) | (0.6) | (3,842) | (0.8) | (18.6) |
| Income before income taxes | 5,060 | 1.0 | 20,254 | 4.1 | (75.0) |
| Provision (benefit) for income taxes | 3,606 | 0.7 | (684) | (0.1) | nm |
| Net income | $ 1,454 | 0.3 | $ 20,938 | 4.2 | (93.1) |

nm – Not meaningful

***Consolidated Net Sales***

Consolidated net sales for the current nine-month period increased by $31,724, or 6.4%, as compared to the prior nine-month period. For our NACA operations, the current nine-month period consisted of 40 fiscal weeks, while the prior nine-month period consisted of 39 fiscal weeks. Net sales were adversely impacted by unfavorable foreign currency translation of approximately $17,200.

Consolidated sales volumes increased 7.6%, attributable to continued growth in sales of Flake and Chip, along with higher sales of dyed yarn in connection with the dyed yarn portfolio acquisition that closed in the fourth quarter of fiscal 2018, in the Polyester Segment and growth in sales of REPREVE® staple fiber and other PVA products in the International Segment. Sales continue to expand in the International Segment as our PVA portfolio resonates with our brand partners that are focused on sustainable solutions. We believe the softness in the domestic environment and competition from imports continue to be challenges for the domestic textile supply chain. Our Nylon Segment results are adversely impacted by the ongoing global trend of declining demand for nylon socks, ladies' hosiery and intimate apparel.

Consolidated average sales prices decreased 1.1%, as price increases made in response to rising raw material costs during calendar 2018 were more than offset by (i) unfavorable foreign currency translation and (ii) the disproportionate growth of lower-priced Flake and Chip in the current nine-month period.

PVA products at the end of the current nine-month period comprised approximately 45% of consolidated net sales, equal to the 45% ratio at the end of fiscal 2018, and slightly higher than the 44% ratio for the prior nine-month period. Within the PVA product category, our customers can choose between various solutions, some of which carry higher margins than others. Accordingly, growth in PVA sales does not necessarily translate into higher margins or increased profitability on a consolidated basis.

Unfavorable foreign currency translation is primarily associated with the weakening of the BRL and RMB.

***Consolidated Gross Profit***

Gross profit for the current nine-month period decreased by $14,558, or 23.3%, as compared to the prior nine-month period. The gross profit decline is primarily attributable to (i) lower conversion margin in the Polyester and International Segments, in which the current nine-month period was unfavorably impacted by increasing raw material costs, (ii) unfavorable foreign currency translation of approximately $3,800, (iii) disproportionate growth of lower margin products and (iv) weaker fixed cost absorption.

***Consolidated Selling, General and Administrative Expenses***

The change in SG&A expenses is as follows:

| | | |
|---|---|---|
| SG&A expenses for the prior nine-month period | $ | 41,335 |
| Decrease in compensation expenses | | (2,805) |
| Decrease due to foreign currency translation | | (831) |
| Increase in professional fees | | 1,423 |
| Increase due to an additional week in fiscal 2019 | | 841 |
| Other net increases | | 709 |
| SG&A expenses for the current nine-month period | $ | 40,672 |

Total SG&A expenses were lower for the current nine-month period compared to the prior nine-month period, primarily as a result of significant forfeitures of share-based compensation and variable compensation in connection with executive officer departures that occurred in fiscal 2019, partially offset by (i) an increase in fees paid to professional service providers for legal and audit services and (ii) an additional week in fiscal 2019.

***Consolidated Provision (Benefit) for Bad Debts***

There was no significant activity reflected in the current nine-month period or the prior nine-month period for bad debts.

***Consolidated Other Operating Expense, Net***

Other operating expense, net primarily reflects severance expense recorded in the current nine-month period and foreign currency transaction losses recorded in the prior nine-month period.

***Consolidated Interest Expense, Net***

Interest on debt obligations increased from the prior nine-month period to the current nine-month period primarily due to a general increase in market interest rates and principal on the variable rate portion of our debt. The components of consolidated interest expense, net are as follows:

| | For the Nine Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | |
| Interest and fees on the ABL Facility | $ | 3,467 | $ | 2,789 |
| Other interest | | 563 | | 633 |
| Subtotal of interest on debt obligations | | 4,030 | | 3,422 |
| Other components of interest expense | | 48 | | 140 |
| Total interest expense | | 4,078 | | 3,562 |
| Interest income | | (448) | | (444) |
| Interest expense, net | $ | 3,630 | $ | 3,118 |

***Consolidated Earnings from Unconsolidated Affiliates***

The components of earnings from unconsolidated affiliates are as follows:

| | For the Nine Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | |
| Earnings from PAL | $ | (2,154) | $ | (2,957) |
| Earnings from nylon joint ventures | | (972) | | (885) |
| Total equity in earnings of unconsolidated affiliates | $ | (3,126) | $ | (3,842) |
| | | | | |
| As a percentage of consolidated income before income taxes | | 61.8% | | 19.0% |

UNIFI's 34% share of PAL's earnings decreased from $2,957 in the prior nine-month period to $2,154 in the current nine-month period. The decrease was primarily attributable to higher raw material costs and reduced operating leverage, most notably in the comparable first fiscal quarters of the current nine-month period and the prior nine-month period.

***Consolidated Income Taxes***

Consolidated income taxes is as follows:

| | For the Nine Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | |
| Provision (benefit) for income taxes | $ | 3,606 | $ | (684) |
| Effective tax rate | | 71.3% | | (3.4)% |

The effective tax rate is subject to variation due to numerous factors, including variability in the amount of pre-tax and taxable income, the mix of income by jurisdiction, changes in deferred tax valuation allowances, and changes in statutes, regulations and case law. Additionally, the impacts of discrete items, non-deductible expenses, and the tax on global intangible low taxed income is greater when pre-tax income is lower.

The effective tax rate for the current nine-month period was higher than the U.S. federal statutory rate primarily due to the effects of the GILTI provisions enacted in H.R. 1, losses in tax jurisdictions for which no tax benefit could be recognized, earnings taxed at higher rates in foreign jurisdictions, and foreign withholding taxes. Tax expense for the current period also included $880 of expense related to the enactment of H.R. 1. These rate detriments were partially offset by benefits of approximately $2,045 for tax credits related to prior years.

The effective tax rate for the prior nine-month period is lower than the U.S. statutory tax rate primarily due to the $4,500 tax benefit resulting from the revaluation of UNIFI's domestic deferred tax balances for the lower U.S. statutory tax rate, the release of a $3,807 valuation allowance and foreign income being taxed at lower rates. These benefits were partially offset by a $1,600 provisional charge for the deemed mandatory repatriation of foreign earnings and profits, net of foreign tax credits, and by losses in tax jurisdictions for which no tax benefit could be recognized.

***Consolidated Net Income***

Net income for the current nine-month period was $1,454, or $0.08 per share, compared to $20,938, or $1.12 per diluted share, for the prior nine-month period. The decrease was primarily attributable to (i) lower gross profit primarily relating to higher polyester raw material costs and competitive pressures contributing to weaker fixed cost absorption and a weaker sales mix and (ii) a higher effective tax rate.

**Segment Overview**

Following is a discussion and analysis of the revenue and profitability performance of UNIFI's reportable segments for the current nine-month period.

***Polyester Segment***

The components of Segment Profit, each component as a percentage of net sales and the percentage increase or decrease over the prior nine-month period amounts for the Polyester Segment, are as follows:

| | For the Nine Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 281,665 | 100.0 | $ 266,817 | 100.0 | 5.6 |
| Cost of sales | 269,444 | 95.7 | 244,513 | 91.6 | 10.2 |
| Gross profit | 12,221 | 4.3 | 22,304 | 8.4 | (45.2) |
| Depreciation expense | 12,047 | 4.3 | 11,862 | 4.4 | 1.6 |
| Segment Profit | $ 24,268 | 8.6 | $ 34,166 | 12.8 | (29.0) |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 53.2% | | 53.6% | | |
| Segment Profit as a percentage of consolidated amounts | 38.6% | | 44.1% | | |

The change in net sales for the Polyester Segment is as follows:

| | |
|---|---|
| Net sales for the prior nine-month period | $ 266,817 |
| Net change in average selling price and sales mix | 9,135 |
| Increase due to an additional week of sales in fiscal 2019 | 6,622 |
| Decrease in underlying sales volumes | (909) |
| Net sales for the current nine-month period | $ 281,665 |

The increase in net sales for the Polyester Segment from the prior nine-month period to the current nine-month period was primarily attributable to (i) an additional week in the current nine-month period, (ii) higher sales volumes of Flake and Chip, (iii) higher sales volumes of dyed yarn in connection with the dyed yarn portfolio acquisition that closed in the fourth quarter of fiscal 2018 and (iv) higher selling prices in response to several months of raw material related price increases during calendar 2018. However, this favorability was partially offset by a weaker sales mix, characterized by lower textured yarn volumes.

The change in Segment Profit for the Polyester Segment is as follows:

| | |
|---|---|
| Segment Profit for the prior nine-month period | $ 34,166 |
| Net decrease in underlying margins | (9,950) |
| Net impact of additional fiscal week and underlying sales volumes decline | 52 |
| Segment Profit for the current nine-month period | $ 24,268 |

The decrease in Segment Profit for the Polyester Segment from the prior nine-month period to the current nine-month period was primarily attributable to (i) lower conversion margin, in which the current nine-month period was unfavorably impacted by higher raw material costs, (ii) the unfavorable sales mix shift towards lower-margin products discussed above in the net sales analysis and (iii) weaker fixed cost absorption.

***Nylon Segment***

The components of Segment Profit, each component as a percentage of net sales and the percentage increase or decrease over the prior nine-month period amounts for the Nylon Segment are as follows:

| | For the Nine Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 76,159 | 100.0 | $ 75,966 | 100.0 | 0.3 |
| Cost of sales | 69,671 | 91.5 | 68,563 | 90.3 | 1.6 |
| Gross profit | 6,488 | 8.5 | 7,403 | 9.7 | (12.4) |
| Depreciation expense | 1,576 | 2.1 | 1,649 | 2.2 | (4.4) |
| Segment Profit | $ 8,064 | 10.6 | $ 9,052 | 11.9 | (10.9) |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 14.4% | | 15.3% | | |
| Segment Profit as a percentage of consolidated amounts | 12.8% | | 11.7% | | |

The change in net sales for the Nylon Segment is as follows:

| | |
|---|---|
| Net sales for the prior nine-month period | $ 75,966 |
| Increase due to an additional week of sales in fiscal 2019 | 1,646 |
| Net change in average selling price and sales mix | (839) |
| Decrease in underlying sales volumes | (614) |
| Net sales for the current nine-month period | $ 76,159 |

The increase in net sales for the Nylon Segment from the prior nine-month period to the current nine-month period was primarily attributable to the additional week of sales in fiscal 2019, partially offset by a lower-priced sales mix and global demand declines in certain nylon products.

The change in Segment Profit for the Nylon Segment is as follows:

| | |
|---|---|
| Segment Profit for the prior nine-month period | $ 9,052 |
| Net decrease in underlying margins | (1,064) |
| Net impact of additional fiscal week and underlying sales volumes decline | 76 |
| Segment Profit for the current nine-month period | $ 8,064 |

The decrease in Segment Profit for the Nylon Segment from the prior nine-month period to the current nine-month period was primarily attributable to a less profitable sales mix and weaker fixed cost absorption.

***International Segment***

The components of Segment Profit, each component as a percentage of net sales and the percentage increase or decrease over the prior nine-month period amounts for the International Segment are as follows:

| | For the Nine Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2019 | | March 25, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 168,271 | 100.0 | $ 151,694 | 100.0 | 10.9 |
| Cost of sales | 139,275 | 82.8 | 119,050 | 78.5 | 17.0 |
| Gross profit | 28,996 | 17.2 | 32,644 | 21.5 | (11.2) |
| Depreciation expense | 1,146 | 0.7 | 1,249 | 0.8 | (8.2) |
| Segment Profit | $ 30,142 | 17.9 | $ 33,893 | 22.3 | (11.1) |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 31.8% | | 30.5% | | |
| Segment Profit as a percentage of consolidated amounts | 47.9% | | 43.7% | | |

The change in net sales for the International Segment is as follows:

| | | |
|---|---|---|
| Net sales for the prior nine-month period | $ | 151,694 |
| Net increase in sales volumes | | 20,675 |
| Net change in average selling price and sales mix | | 12,981 |
| Unfavorable foreign currency translation effects (primarily RMB and BRL) | | (17,079) |
| Net sales for the current nine-month period | $ | 168,271 |

The increase in net sales for the International Segment from the prior nine-month period to the current nine-month period was primarily attributable to (i) higher sales volumes for our Asian subsidiaries due to growth in our REPREVE® portfolios and (ii) higher pricing on a local currency basis due to increased raw material costs, partially offset by (a) lower sales volumes in Brazil due to a softer economic environment and (b) unfavorable foreign currency translation primarily attributable to the weakening of the BRL and the RMB against the USD during the current nine-month period.

The RMB average exchange rate was 6.82 RMB/USD and 6.55 RMB/USD for the current nine-month period and the prior nine-month period, respectively. The BRL weighted average exchange rate was 3.85 BRL/USD and 3.21 BRL/USD for the current nine-month period and the prior nine-month period, respectively.

The change in Segment Profit for the International Segment is as follows:

| | | |
|---|---|---|
| Segment Profit for the prior nine-month period | $ | 33,893 |
| Net decrease in underlying margins | | (4,303) |
| Unfavorable foreign currency translation effects (primarily RMB and BRL) | | (4,007) |
| Increase in sales volumes | | 4,559 |
| Segment Profit for the current nine-month period | $ | 30,142 |

The decrease in Segment Profit for the International Segment was primarily attributable to (i) margin pressure from higher raw material costs, (ii) unfavorable foreign currency translation effects as the BRL and the RMB weakened against the USD during the current nine-month period and (iii) a less profitable sales mix in Asia, partially offset by the increase in sales volumes described in the net sales analysis above.

**Liquidity and Capital Resources**

UNIFI's primary capital requirements are for working capital, capital expenditures, debt service and stock repurchases. UNIFI's primary sources of capital are cash generated from operations and borrowings available under the ABL Revolver. For the current nine-month period, cash used in operations was $1,517, and, at March 31, 2019, excess availability under the ABL Revolver was $62,735. As further described under "Cash (Used in) Provided by Operating Activities" below, the cash used in operating activities for the current nine-month period is attributable to several factors, including an increase in inventories due to domestic production rates that outpaced domestic sales during the current nine-month period, along with weaker cash-based earnings.

As of March 31, 2019, all of UNIFI's $136,879 of debt obligations were guaranteed by certain of its domestic operating subsidiaries, while nearly all of UNIFI's cash and cash equivalents were held by its foreign subsidiaries. Cash and cash equivalents held by such foreign subsidiaries may not be presently available to fund UNIFI's domestic capital requirements, including its domestic debt obligations. UNIFI employs a variety of tax planning and financing strategies to ensure that its worldwide cash is available in the locations where it is needed. The following table presents a summary of cash and cash equivalents, borrowings available under financing arrangements, liquidity, working capital and total debt obligations as of March 31, 2019 for domestic and foreign operations:

| | Domestic | | Foreign | | Total | |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ | 14 | $ | 27,884 | $ | 27,898 |
| Borrowings available under financing arrangements | | 62,735 | | — | | 62,735 |
| Liquidity | $ | 62,749 | $ | 27,884 | $ | 90,633 |
| | | | | | | |
| Working capital | $ | 97,692 | $ | 97,537 | $ | 195,229 |
| Total debt obligations | $ | 136,879 | $ | — | $ | 136,879 |

***Debt Obligations***

*ABL Facility*

On December 18, 2018, Unifi, Inc. and certain of its subsidiaries entered into the 2018 Amendment, which amended the Credit Agreement. The Credit Agreement provides for the ABL Facility, which is a $200,000 senior secured credit facility that includes the $100,000 ABL Revolver and the ABL Term Loan, which can be reset up to a maximum amount of $100,000, once per fiscal year, if certain conditions are met. The ABL Facility has a maturity date of December 18, 2023.

The 2018 Amendment made the following changes to the Credit Agreement, among others: (i) extended the Maturity Date from March 26, 2020 to December 18, 2023, and (ii) decreased the Applicable Margin pricing structure for Base Rate Loans and LIBOR Rate Loans by 25 basis points. In addition, in connection with the 2018 Amendment, the principal amount of the Term Loan was reset from $80,000 to $100,000. Net proceeds from this Term Loan reset were used to pay down the amount outstanding on the ABL Revolver.

The ABL Facility is secured by a first-priority perfected security interest in substantially all owned property and assets (together with all proceeds and products) of Unifi, Inc., Unifi Manufacturing, Inc. and certain subsidiary guarantors (collectively, the "Loan Parties"). It is also secured by a first-priority security interest in all (or 65% in the case of UNIFI's first-tier controlled foreign subsidiary, as required by the lenders) of the stock of (or other ownership interests in) each of the Loan Parties (other than Unifi, Inc.) and certain subsidiaries of the Loan Parties, together with all proceeds and products thereof.

If excess availability under the ABL Revolver falls below the defined Trigger Level, a financial covenant requiring the Loan Parties to maintain a fixed charge coverage ratio on a quarterly basis of at least 1.05 to 1.00 becomes effective. The Trigger Level as of March 31, 2019 was $25,000. In addition, the ABL Facility contains restrictions on particular payments and investments, including certain restrictions on the payment of dividends and share repurchases. Subject to specific provisions, the ABL Term Loan may be prepaid at par, in whole or in part, at any time before the maturity date, at UNIFI's discretion.

ABL Facility borrowings bear interest at the London Interbank Offer Rate ("LIBOR") plus an applicable margin of 1.25% to 1.75%, or the Base Rate (as defined below) plus an applicable margin of 0.25% to 0.75%, with interest currently being paid on a monthly basis. The applicable margin is based on (i) the excess availability under the ABL Revolver and (ii) the consolidated leverage ratio, calculated as of the end of each fiscal quarter. The Base Rate means the greater of (a) the prime lending rate as publicly announced from time to time by Wells Fargo Bank, National Association, (b) the Federal Funds Rate plus 0.5% and (c) LIBOR plus 1.0%. UNIFI's ability to borrow under the ABL Revolver is limited to a borrowing base equal to specified percentages of eligible accounts receivable and inventory and is subject to certain conditions and limitations. There is also a monthly unused line fee under the ABL Revolver of 0.25%.

As of March 31, 2019, UNIFI was in compliance with all financial covenants in the Credit Agreement and the excess availability under the ABL Revolver was $62,735. At March 31, 2019, the fixed charge coverage ratio was 1.00 to 1.00 and UNIFI had $400 of standby letters of credit, none of which have been drawn upon.

UNIFI currently maintains three interest rate swaps that fix LIBOR at approximately 1.9% on $75,000 of variable-rate debt. Such swaps are scheduled to terminate in May 2022.

*Summary of Debt Obligations*

The following table presents the total balances outstanding for UNIFI's debt obligations, their scheduled maturity dates and the weighted average interest rates for borrowings as well as the applicable current portion of long-term debt:

| | Scheduled Maturity Date | Weighted Average Interest Rate as of March 31, 2019 | Principal Amounts as of | |
|---|---|---|---|---|
| | | | March 31, 2019 | June 24, 2018 |
| ABL Revolver | December 2023 | 3.7% | $ 24,000 | $ 28,100 |
| ABL Term Loan (1) | December 2023 | 3.3% | 100,000 | 85,000 |
| Capital lease obligations | (2) | 3.9% | 12,879 | 18,107 |
| Total debt | | | 136,879 | 131,207 |
| Current portion of capital lease obligations | | | (6,054) | (6,996) |
| Current portion of other long-term debt | | | (10,000) | (10,000) |
| Unamortized debt issuance costs | | | (1,021) | (658) |
| Total long-term debt | | | $ 119,804 | $ 113,553 |

(1) Includes the effects of interest rate swaps.
(2) Scheduled maturity dates for capital lease obligations range from August 2019 to November 2027.

In addition to making payments in accordance with the scheduled maturities of debt required under its existing debt obligations, UNIFI may, from time to time, elect to repay additional amounts borrowed under the ABL Facility. Funds to make such repayments may come from the operating cash flows of the business or other sources and will depend upon UNIFI's strategy, prevailing market conditions, liquidity requirements, contractual restrictions and other factors.

*Scheduled Debt Maturities*

The following table presents the scheduled maturities of UNIFI's outstanding debt obligations for the remainder of fiscal 2019, the following four fiscal years and thereafter:

| | Fiscal 2019 | Fiscal 2020 | Fiscal 2021 | Fiscal 2022 | Fiscal 2023 | Thereafter |
|---|---|---|---|---|---|---|
| ABL Revolver | $ — | $ — | $ — | $ — | $ — | $ 24,000 |
| ABL Term Loan | 2,500 | 10,000 | 10,000 | 10,000 | 10,000 | 57,500 |
| Capital lease obligations | 1,704 | 5,559 | 2,633 | 2,417 | 90 | 476 |
| Total | $ 4,204 | $ 15,559 | $ 12,633 | $ 12,417 | $ 10,090 | $ 81,976 |

***Working Capital***

The following table presents the components of working capital and the reconciliation of working capital to Adjusted Working Capital:

| | March 31, 2019 | June 24, 2018 |
|---|---|---|
| Cash and cash equivalents | $ 27,898 | $ 44,890 |
| Receivables, net | 91,701 | 86,273 |
| Inventories | 130,981 | 126,311 |
| Income tax receivable | 13,039 | 10,291 |
| Other current assets | 16,365 | 6,529 |
| Accounts payable | (47,726) | (48,970) |
| Accrued expenses | (13,076) | (17,720) |
| Other current liabilities | (23,953) | (18,313) |
| Working capital | $ 195,229 | $ 189,291 |
| | | |
| Less: Cash and cash equivalents | (27,898) | (44,890) |
| Less: Income tax receivable | (13,039) | (10,291) |
| Less: Other current liabilities | 23,953 | 18,313 |
| Adjusted Working Capital | $ 178,245 | $ 152,423 |

Working capital increased from $189,291 as of June 24, 2018 to $195,229 as of March 31, 2019, while Adjusted Working Capital increased from $152,423 to $178,245.

The decrease in cash and cash equivalents was driven by the utilization of cash to retire ABL Revolver debt in advance of UNIFI's entering into the 2018 Amendment as described above. The increase in receivables, net was primarily attributable to an increase in days sales outstanding due to a general increase in customer payment terms. The increase in inventories was attributable to domestic finished goods production outpacing domestic sales and higher raw material costs. The increase in income tax receivable reflects the timing of tax payments and refunds. The increase in other current assets reflects the addition of contract assets that relate to products on hand that have been reflected in revenue but not yet shipped to the associated customer (in connection with the adoption of the New Revenue Recognition Guidance). The decrease in accounts payable primarily reflects weaker seasonal demand in the current period, partially offset by more favorable vendor payment terms. The decrease in accrued expenses was primarily attributable to the fiscal 2019 payment of variable compensation earned in fiscal 2018 and comparatively lower accrued variable compensation for fiscal 2019. The change in other current liabilities reflects an increase in income taxes payable due to the timing of tax payments.

***Capital Projects***

During the current nine-month period, UNIFI invested approximately $19,200 in capital projects primarily relating to (i) further improvements in production capabilities and technology enhancements in the Americas and (ii) annual maintenance capital expenditures. UNIFI will seek to ensure that maintenance capital expenditures are sufficient to allow continued production at high efficiencies.

Through the remainder of fiscal 2019, UNIFI expects to invest an additional $5,800 in capital projects (for an aggregate fiscal 2019 estimate of $25,000), which include (i) making further improvements in production capabilities and technology enhancements in the Americas and (ii) routine annual maintenance capital expenditures to allow continued efficient production.

The total amount ultimately invested in fiscal 2019 could be more or less than the anticipated amount, depending on the timing and scale of contemplated initiatives and other factors, and is expected to be funded by a combination of cash from operations and borrowings under the ABL Revolver. UNIFI expects the recent capital projects to provide benefits to future profitability. The additional assets from these capital projects consist primarily of machinery and equipment.

As a result of our continued focus on REPREVE® and other PVA products as part of our mix enrichment strategy, we may incur additional expenditures for capital projects beyond the currently estimated amount, as we pursue new, currently unanticipated opportunities in order to expand our manufacturing capabilities for these products, for other strategic growth initiatives or to further streamline our manufacturing process, in which case we may be required to increase the amount of our working capital and long-term borrowings. If our strategy is successful, we would expect higher gross profit as a result of the combination of higher sales volumes and an improved mix from higher-margin products.

***Stock Repurchase Program***

On April 23, 2014, UNIFI announced that the Board had approved the 2014 SRP under which UNIFI was authorized to acquire up to $50,000 of its common stock. UNIFI made no repurchases of its shares of common stock during the current nine-month period. Through October 31, 2018 (the date the 2014 SRP was terminated, as discussed below), UNIFI repurchased a total of 806 shares, at an average price of $27.79 (for a total of $22,409, inclusive of commission costs) pursuant to the 2014 SRP.

On October 31, 2018, UNIFI announced that the Board had terminated the 2014 SRP and approved the 2018 SRP under which UNIFI is authorized to acquire up to $50,000 of its common stock. Under the 2018 SRP, purchases will be made from time to time in the open market at prevailing market prices, through private transactions or block trades. The timing and amount of repurchases will depend on market conditions, share price, applicable legal requirements and other factors. The share repurchase authorization is discretionary and has no expiration date.

As of March 31, 2019, $50,000 remains available for repurchase under the 2018 SRP.

***Liquidity Summary***

UNIFI has met its historical liquidity requirements for working capital, capital expenditures, debt service requirements and other operating needs from its cash flows from operations and available borrowings. UNIFI believes that its existing cash balances, cash flows from operations and borrowings available under the ABL Revolver will enable UNIFI to comply with the terms of its indebtedness and meet its foreseeable liquidity requirements. Domestically, UNIFI's cash balances, cash provided by operating activities and borrowings available under the ABL Revolver continue to be sufficient to fund UNIFI's domestic operating activities as well as cash commitments for its investing and financing activities. For its existing foreign operations, UNIFI expects its existing cash balances and cash provided by operating activities will provide the needed liquidity to fund its foreign operating activities and any foreign investing activities, such as future capital expenditures. However, any significant expansion of our foreign operations may require cash sourced from our domestic subsidiaries.

**Cash (Used in) Provided by Operating Activities**

The significant components of net cash (used in) provided by operating activities are summarized below. UNIFI analyzes net cash (used in) provided by operating activities utilizing the major components of the statements of cash flows prepared under the indirect method.

| | For the Nine Months Ended | |
|---|---|---|
| | March 31, 2019 | March 25, 2018 |
| Net income | $ 1,454 | $ 20,938 |
| Equity in earnings of unconsolidated affiliates | (3,126) | (3,842) |
| Depreciation and amortization expense | 17,242 | 16,844 |
| Non-cash compensation expense | 2,758 | 4,878 |
| Deferred income taxes | (190) | (8,441) |
| Subtotal | 18,138 | 30,377 |
| | | |
| Distributions received from unconsolidated affiliates | 1,380 | 11,226 |
| Change in inventories | (13,409) | (9,424) |
| Other changes in assets and liabilities | (7,626) | (7,190) |
| Net cash (used in) provided by operating activities | $ (1,517) | $ 24,989 |

The decrease in net cash (used in) provided by operating activities from the prior nine-month period to the current nine-month period was primarily due to (i) the significant increase in inventories and other current assets as shown and discussed above under "Working Capital," (ii) approximately $9,800 less in dividends from unconsolidated affiliates and (iii) lower Adjusted EBITDA. The decrease was partially offset by approximately $8,900 of tax refunds received in the current nine-month period.

**Cash Used in Investing Activities and (Used in) Provided by Financing Activities**

UNIFI utilized $19,190 for investing activities and was provided $4,128 (net) from financing activities during the current nine-month period.

Investing activities include $19,199 for capital expenditures, primarily relating to ongoing maintenance capital expenditures and production capabilities and technology enhancements in the Americas.

Significant financing activities include borrowings against the ABL Facility primarily to fund capital expenditure activities.

**Contractual Obligations**

UNIFI has incurred various financial obligations and commitments in its normal course of business. Financial obligations are considered to represent known future cash payments that UNIFI is required to make under existing contractual arrangements, such as debt and lease agreements.

Except as effected by the 2018 Amendment to the Credit Agreement described under "Debt Obligations" above, there have been no further material changes in the scheduled maturities of UNIFI's contractual obligations as disclosed in the table under the heading "Contractual Obligations" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2018 Form 10-K.

**Off-Balance Sheet Arrangements**

UNIFI is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on UNIFI's financial condition, results of operations, liquidity or capital expenditures.

**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 estimates from quarter to quarter could materially impact the presentation of the financial statements. UNIFI's critical accounting policies are discussed in the 2018 Form 10-K. There were no material changes to these policies during the current nine-month period.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

UNIFI is exposed to market risks associated with changes in interest rates, fluctuations in foreign currency exchange rates, and raw material and commodity costs, which may adversely affect its financial position, results of operations or cash flows. UNIFI does not enter into derivative financial instruments for trading purposes, nor is it a party to any leveraged financial instruments.

***Interest Rate Risk***

UNIFI is exposed to interest rate risk through its borrowing activities. As of March 31, 2019, UNIFI had borrowings under its ABL Revolver and ABL Term Loan that totaled $124,000 and contain variable rates of interest; however, UNIFI hedges a significant portion of such interest rate variability using interest rate swaps. After considering the variable rate debt obligations that have been hedged and UNIFI's outstanding debt obligations with fixed rates of interest, UNIFI's sensitivity analysis indicates that a 50-basis point increase in LIBOR as of March 31, 2019 would result in an increase in annual interest expense of less than $300.

***Foreign Currency Exchange Rate Risk***

UNIFI conducts its business in various foreign countries and in various foreign currencies. Each of UNIFI's subsidiaries may enter into transactions (sales, purchases, fixed purchase commitments, etc.) that are denominated in currencies other than the subsidiary's functional currency and thereby expose UNIFI to foreign currency exchange rate risk. UNIFI may enter into foreign currency forward contracts to hedge this exposure. UNIFI may also enter into foreign currency forward contracts to hedge its exposure for certain equipment or inventory purchase commitments. As of March 31, 2019, UNIFI had no outstanding foreign currency forward contracts.

A significant portion of raw materials purchased by UNIFI's Brazilian subsidiary are denominated in USDs, requiring UNIFI to regularly exchange BRL. A significant portion of sales and asset balances for our Asian subsidiaries are denominated in USDs. During recent fiscal years, UNIFI was negatively impacted by a devaluation of the BRL. Also, fluctuations in the value of the RMB have generated foreign currency transaction impacts in certain fiscal quarters. Discussion and analysis surrounding the impact of fluctuations of the BRL and the RMB on UNIFI's results of operations are included above in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

As of March 31, 2019, UNIFI's subsidiaries outside the United States, whose functional currency is other than the USD, held approximately 16.7% of UNIFI's consolidated total assets. UNIFI does not enter into foreign currency derivatives to hedge its net investment in its foreign operations.

As of March 31, 2019, $24,361, or 87.3%, of UNIFI's cash and cash equivalents was held outside the United States, of which $16,688 was held in USDs, $1,152 was held in RMBs and $6,301 was held in BRLs.

***Raw Material and Commodity Risks***

A significant portion of UNIFI's raw material and energy costs are derived from petroleum-based chemicals. The prices for petroleum and petroleum-related products and energy costs are volatile and dependent on global supply and demand dynamics, including certain geo-political risks. A sudden rise in the price of petroleum and petroleum-based products could have a material impact on UNIFI's profitability. UNIFI does not use financial instruments to hedge its exposure to changes in these costs. The costs of the primary raw materials that UNIFI uses throughout all of its operations are generally based on USD pricing, and such materials are purchased at market or at fixed prices that are established with individual vendors as part of the purchasing process for quantities expected to be consumed in the ordinary course of business. UNIFI manages fluctuations in the cost of raw materials primarily by making corresponding adjustments to the prices charged to its customers. Certain customers are subject to an index-based pricing model in which UNIFI's prices are adjusted based on the change in the cost of raw materials in the prior quarter. Pricing adjustments for other customers must be negotiated independently. At times, UNIFI is unable to pass on to its customers rises in raw material costs and, when it can, there typically is a time lag that adversely affects UNIFI and its margins during one or more periods. In ordinary market conditions in which raw material price increases have stabilized and sales volumes are consistent with traditional levels, UNIFI has historically been successful in implementing price adjustments within one to two fiscal quarters of the raw material price increase for index priced customers and within two fiscal quarters of the raw material price increase for non-index priced customers.

During fiscal 2018, UNIFI experienced elevated polyester raw material costs in connection with heightened petroleum prices, and these costs continued to increase during the first four months of fiscal 2019 due to a tighter global supply of polyester and increased demand for polyester feedstock. In combination with a difficult operating environment characterized by lower textured yarn volumes in the domestic market, where sufficient corresponding price increases were difficult to achieve, these higher costs drove a decline in gross profit for the first six months of fiscal 2019. Further, UNIFI had expected raw material costs to decline during the third quarter of fiscal 2019. However, those costs remained elevated, and UNIFI was unable to realize a more favorable raw material cost and selling price relationship during the third quarter of fiscal 2019.

***Other Risks***

UNIFI is also exposed to political risk, including changing laws and regulations governing international trade, such as quotas, tariffs and tax laws. The degree of impact and the frequency of these events cannot be predicted.

## Item 4. Controls and Procedures

As of March 31, 2019, an evaluation of the effectiveness of UNIFI's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was performed under the supervision and with the participation of UNIFI's management, including the principal executive officer and the principal financial officer. Based on that evaluation, UNIFI's principal executive officer and principal financial officer concluded that UNIFI's disclosure controls and procedures are effective to ensure that information required to be disclosed by UNIFI in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that information required to be disclosed by UNIFI in the reports UNIFI files or submits under the Exchange Act is accumulated and communicated to UNIFI's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in UNIFI's internal control over financial reporting during the three months ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, UNIFI's internal control over financial reporting.

## PART II—OTHER INFORMATION

**Item 1. Legal Proceedings**

We are from time to time a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. With respect to all such lawsuits, claims and proceedings, we record reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. We do not believe that any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on our results of operations, financial position or cash flows. We maintain liability insurance for certain risks that is subject to certain self-insurance limits.

**Item 6. Exhibits**

| Exhibit No. | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation of Unifi, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed October 31, 2016 (File No. 001-10542)). |
| 3.2 | Amended and Restated By-laws of Unifi, Inc., as of October 26, 2016 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed October 31, 2016 (File No. 001-10542)). |
| 3.3 | Declaration of Amendment to Amended and Restated By-laws of Unifi, Inc. dated as of April 30, 2019 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed May 1, 2019 (File No. 001-10542)). |
| 10.1+* | Unifi, Inc. Director Compensation Policy, effective April 30, 2019. |
| 31.1+ | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2+ | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1++ | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2++ | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101+ | The following financial information (unaudited) from Unifi, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, filed May 8, 2019, formatted in eXtensible Business Reporting Language: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive (Loss) Income, (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements. |

\+ Filed herewith.

++ Furnished herewith.

* Indicates a management contract or compensatory plan or arrangement.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**UNIFI, INC.**
(Registrant)

Date: May 8, 2019

By: /s/ CHRISTOPHER A. SMOSNA
Christopher A. Smosna
Vice President, Treasurer & Interim Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

Exhibit 10.1

**UNIFI, INC.**

**DIRECTOR COMPENSATION POLICY***
**(Effective April 30, 2019)**

Each director, who is considered "independent" within the meaning of the Director Independence Standards adopted by the Board of Directors (the "Board") of Unifi, Inc. (the "Company"), which are inclusive of Section 303A.02 of the New York Stock Exchange Listed Company Manual, will receive the following compensation for service on the Board:

- $100,000 annual retainer, where up to fifty percent (50%) of such amount is payable (at the director's election) in cash and the remainder of such amount is an equity grant payable in shares of the Company's common stock;**

- $300,000 annual retainer for the Non-Executive Chairman, payable in the form of options to purchase shares of the Company's common stock;

- $15,000 annual retainer for the chair of the Audit Committee, payable (at the director's election) in cash or shares of the Company's common stock;

- $10,000 annual retainer for the chairs of the Compensation Committee and the Corporate Governance and Nominating Committee, payable (at such director's election) in cash or shares of the Company's common stock; and

- reimbursement of reasonable expenses incurred for attending Board and committee meetings.

A director may be issued stock units, in lieu of shares of the Company's common stock, which would be payable upon the director's cessation of service as a member of the Board. The number of any shares of the Company's common stock or stock units granted to a director shall be determined based on the fair market value of the Company's common stock on the date of the director's election to the Board, and the number of shares of the Company's common stock underlying any stock option granted to a director shall be determined based on the Black-Scholes value of the Company's common stock on the option grant date.

Any independent director who is initially appointed or elected to the Board other than at the annual meeting of shareholders will receive his or her annual retainer calculated on a pro rata basis based upon the period between the date of such appointment or election and the anticipated date of the next annual meeting of shareholders.

Directors who are not determined to be "independent" as defined above will receive no compensation for serving as directors.

* *Adopted by the Board on April 30, 2019.*
*** Effective for annual retainers first payable beginning from and after April 30, 2019.*

**Exhibit 31.1**

## CERTIFICATION

I, Thomas H. Caudle, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Unifi, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ THOMAS H. CAUDLE, JR.
Thomas H. Caudle, Jr.
President & Chief Operating Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION**

I, Christopher A. Smosna, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Unifi, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ CHRISTOPHER A. SMOSNA

Christopher A. Smosna
Vice President, Treasurer & Interim Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Unifi, Inc. (the “Company”) for the period ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Thomas H. Caudle, Jr., President & Chief Operating Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2019

/s/ THOMAS H. CAUDLE, JR.
Thomas H. Caudle, Jr.
President & Chief Operating Officer
(Principal Executive Officer)

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Unifi, Inc. (the “Company”) for the period ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher A. Smosna, Vice President, Treasurer & Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:May 8, 2019

/s/ CHRISTOPHER A. SMOSNA
Christopher A. Smosna
Vice President, Treasurer & Interim Chief Financial Officer
(Principal Financial Officer)