
**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 December 24, 2017

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
(State or other jurisdiction of
incorporation or organization)

11-2165495
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

As of January 25, 2018, there were 18,297,602 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 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 economic 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, and 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;
- the success of the Company's strategic business initiatives;
- volatility of financial and credit markets;
- the ability to service indebtedness and fund capital expenditures and strategic business initiatives;
- 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;
- employee relations;
- the impact of environmental, health and safety regulations;
- 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 25, 2017 or elsewhere in this report.

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.
FORM 10-Q
FOR THE THREE MONTHS AND SIX MONTHS ENDED DECEMBER 24, 2017
TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

	<u>Page</u>
Item 1. Financial Statements	1
Condensed Consolidated Balance Sheets as of December 24, 2017 and June 25, 2017	1
Condensed Consolidated Statements of Income for the Three Months and Six Months Ended December 24, 2017 and December 25, 2016	2
Condensed Consolidated Statements of Comprehensive Income for the Three Months and Six Months Ended December 24, 2017 and December 25, 2016	3
Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 24, 2017 and December 25, 2016	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	37
Item 4. Controls and Procedures	38

PART II—OTHER INFORMATION

Item 1. Legal Proceedings	39
Item 1A. Risk Factors	39
Item 6. Exhibits	40
Signatures	41

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 24, 2017	June 25, 2017
ASSETS		
Cash and cash equivalents	\$ 48,615	\$ 35,425
Receivables, net	80,847	81,121
Inventories	116,239	111,405
Income taxes receivable	10,612	9,218
Other current assets	6,854	6,468
Total current assets	<u>263,167</u>	<u>243,637</u>
Property, plant and equipment, net	203,699	203,388
Deferred income taxes	4,161	2,194
Investments in unconsolidated affiliates	113,623	119,513
Other non-current assets	2,815	2,771
Total assets	<u>\$ 587,465</u>	<u>\$ 571,503</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 35,420	\$ 41,499
Accrued expenses	12,990	16,144
Income taxes payable	1,833	1,351
Current portion of long-term debt	17,112	17,060
Total current liabilities	<u>67,355</u>	<u>76,054</u>
Long-term debt	115,588	111,382
Other long-term liabilities	11,093	11,804
Deferred income taxes	7,140	11,457
Total liabilities	<u>201,176</u>	<u>210,697</u>
Commitments and contingencies		
Common stock, \$0.10 par value (500,000,000 shares authorized; 18,290,935 and 18,229,777 shares issued and outstanding as of December 24, 2017 and June 25, 2017, respectively)	1,829	1,823
Capital in excess of par value	55,215	51,923
Retained earnings	360,702	339,940
Accumulated other comprehensive loss	(31,457)	(32,880)
Total Unifi, Inc. shareholders' equity	<u>386,289</u>	<u>360,806</u>
Non-controlling interest	—	—
Total shareholders' equity	<u>386,289</u>	<u>360,806</u>
Total liabilities and shareholders' equity	<u>\$ 587,465</u>	<u>\$ 571,503</u>

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended		For the Six Months Ended	
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016
Net sales	\$ 167,478	\$ 155,155	\$ 331,720	\$ 315,124
Cost of sales	144,802	133,025	285,752	269,447
Gross profit	22,676	22,130	45,968	45,677
Selling, general and administrative expenses	14,626	12,868	27,489	24,278
Benefit for bad debts	(72)	(95)	(131)	(462)
Other operating expense, net	348	319	663	249
Operating income	7,774	9,038	17,947	21,612
Interest income	(181)	(183)	(262)	(329)
Interest expense	1,190	914	2,375	1,606
Loss on sale of business	—	1,662	—	1,662
Equity in (earnings) loss of unconsolidated affiliates	(211)	367	(3,298)	(473)
Income before income taxes	6,976	6,278	19,132	19,146
(Benefit) provision for income taxes	(4,826)	1,924	(1,630)	5,650
Net income including non-controlling interest	11,802	4,354	20,762	13,496
Less: net loss attributable to non-controlling interest	—	(237)	—	(498)
Net income attributable to Unifi, Inc.	<u>\$ 11,802</u>	<u>\$ 4,591</u>	<u>\$ 20,762</u>	<u>\$ 13,994</u>
Net income attributable to Unifi, Inc. per common share:				
Basic	\$ 0.65	\$ 0.25	\$ 1.14	\$ 0.78
Diluted	\$ 0.63	\$ 0.25	\$ 1.12	\$ 0.76

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended		For the Six Months Ended	
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016
Net income including non-controlling interest	\$ 11,802	\$ 4,354	\$ 20,762	\$ 13,496
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(2,341)	(780)	524	(1,359)
Foreign currency translation adjustments for an unconsolidated affiliate	(487)	(280)	(593)	(523)
Changes in interest rate swaps	1,077	19	1,492	38
Other comprehensive (loss) income, net	(1,751)	(1,041)	1,423	(1,844)
Comprehensive income including non-controlling interest	10,051	3,313	22,185	11,652
Less: comprehensive loss attributable to non-controlling interest	—	(237)	—	(498)
Comprehensive income attributable to Unifi, Inc.	<u>\$ 10,051</u>	<u>\$ 3,550</u>	<u>\$ 22,185</u>	<u>\$ 12,150</u>

See accompanying notes to condensed consolidated financial statements.

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

	For the Six Months Ended	
	December 24, 2017	December 25, 2016
Cash and cash equivalents at beginning of year	\$ 35,425	\$ 16,646
<i>Operating activities:</i>		
Net income including non-controlling interest	20,762	13,496
Adjustments to reconcile net income including non-controlling interest to net cash provided by operating activities:		
Equity in earnings of unconsolidated affiliates	(3,298)	(473)
Distributions received from unconsolidated affiliates	8,678	1,500
Depreciation and amortization expense	11,135	9,731
Non-cash compensation expense	3,569	1,862
Loss on sale of business	—	1,662
Excess tax benefit on stock-based compensation plans	—	(1,111)
Deferred income taxes	(6,282)	5,335
Other, net	(206)	34
<i>Changes in assets and liabilities:</i>		
Receivables, net	267	6,043
Inventories	(4,556)	(6,751)
Other current assets	(210)	837
Income taxes	(945)	(6,841)
Accounts payable and accrued expenses	(8,796)	(8,160)
Other, net	271	132
Net cash provided by operating activities	<u>20,389</u>	<u>17,296</u>
<i>Investing activities:</i>		
Capital expenditures	(11,360)	(19,343)
Other, net	15	(180)
Net cash used in investing activities	<u>(11,345)</u>	<u>(19,523)</u>
<i>Financing activities:</i>		
Proceeds from ABL Revolver	59,200	65,200
Payments on ABL Revolver	(46,600)	(61,600)
Proceeds from ABL Term Loan	—	14,500
Payments on ABL Term Loan	(5,000)	(4,750)
Payments on capital lease obligations	(3,528)	(2,154)
Proceeds from stock option exercises	219	2,481
Excess tax benefit on stock-based compensation plans	—	1,111
Other	(328)	(368)
Net cash provided by financing activities	<u>3,963</u>	<u>14,420</u>
Effect of exchange rate changes on cash and cash equivalents	183	(349)
Net increase in cash and cash equivalents	<u>13,190</u>	<u>11,844</u>
Cash and cash equivalents at end of period	<u>\$ 48,615</u>	<u>\$ 28,490</u>

See accompanying notes to condensed consolidated financial statements.

Unifi, Inc.
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 synthetic and recycled products made from polyester and nylon primarily to other yarn manufacturers and knitters and weavers that produce fabric for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets. 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 and polyester polymer beads (“Chip”). Nylon products include textured, solution dyed and spandex covered yarns.

UNIFI maintains one of the textile industry’s most comprehensive yarn product offerings that include specialized yarns, premium value-added (“PVA”) yarns and commodity yarns, with principal geographic markets in the Americas and Asia.

UNIFI has 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 producer of 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 25, 2017 (the “2017 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 currency and share amounts, except per share amounts, are presented in thousands (000s), except as otherwise noted.

The fiscal quarter for Unifi, Inc. and its subsidiary in El Salvador ended on December 24, 2017, the second to last Sunday in December. The fiscal quarter for Unifi, Inc.’s Brazilian, Chinese, Colombian and Sri Lankan subsidiaries ended on December 31, 2017. There were no significant transactions or events that occurred between Unifi, Inc.’s fiscal quarter end and such wholly owned subsidiaries’ subsequent fiscal quarter end. The three-month and six-month periods ended December 24, 2017 and December 25, 2016 each consisted of 13 and 26 fiscal weeks, respectively.

Reclassifications

Certain reclassifications of prior years’ data have been made to conform to the current year presentation.

3. Recent Accounting Pronouncements

Issued and Pending Adoption

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent ASUs have been issued to provide clarity and defer the effective date of the new guidance. The new revenue recognition standard eliminates the transaction- and industry-specific revenue recognition guidance under current GAAP and replaces it with a principles-based approach. While UNIFI has not yet determined the effect of the new guidance on its ongoing financial reporting, UNIFI notes the following considerations: (i) UNIFI is primarily engaged in the business of manufacturing and delivering tangible products utilizing relatively straightforward contract terms without multiple performance obligations and (ii) transaction prices for UNIFI’s primary and material revenue activities are determinable and lack significant timing considerations. UNIFI is currently performing the following activities regarding implementation of the new guidance: (a) reviewing material contracts and (b) assessing accounting policy elections and disclosures under the new guidance. In

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

addition, implementation matters remaining include (x) evaluating the systems and processes to support revenue recognition and (y) selecting the method of adoption. The new revenue recognition guidance is effective for UNIFI's fiscal 2019.

In February 2016, the FASB issued 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. While UNIFI has not yet determined the full effect of the new guidance on its ongoing financial reporting, as of June 25, 2017, UNIFI had approximately \$6,400 of future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) and did not enter into any new material operating lease agreements during the six months ended December 24, 2017. The new lease guidance is effective for UNIFI's fiscal 2020, and early adoption is permitted.

In connection with the SEC Staff Announcement on July 20, 2017 relating to the transition to ASU No. 2014-09 and ASU No. 2016-02, due to its status as a significant subsidiary of Unifi, Inc., PAL expects to adopt (i) the new revenue recognition guidance in its fiscal 2019 and (ii) the new lease guidance in its fiscal 2020.

Recently Adopted

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The ASU is intended to improve and simplify the rules around hedge accounting, reduce complexity for certain hedging concepts and better align financial reporting with an entity's risk management activities. UNIFI early adopted ASU No. 2017-12 in the three months ended December 24, 2017. Early adoption will allow UNIFI to (i) eliminate consideration for hedge ineffectiveness, (ii) utilize a qualitative effectiveness assessment prospectively and (iii) contemplate hedge accounting for additional risk management activities allowed by the simplified guidance. Due to a lack of complexity in UNIFI's recent risk management activities, there are no applicable cumulative adjustments to UNIFI's financial statements in connection with adoption of the ASU.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments, including the accounting and classification of the respective income tax impacts, forfeitures and statutory withholding requirements. UNIFI adopted the ASU in the three months ended September 24, 2017, on a prospective basis. The adoption resulted in a \$148 decrease to the provision for income taxes for excess tax benefits and an immaterial increase in potential dilutive weighted average shares for the six months ended December 24, 2017. In connection with the adoption of the ASU, UNIFI has elected to recognize forfeitures as they occur, and there is no corresponding retrospective adjustment to retained earnings. Additionally, UNIFI is presenting the change in classification of excess tax benefits in the condensed consolidated statements of cash flows on a prospective basis.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which modifies the subsequent measurement of inventories recorded under a first-in, first-out or average cost method. Under the new standard, such inventories are required to be measured at the lower of cost and net realizable value. UNIFI adopted the ASU in the three months ended September 24, 2017, with prospective application. UNIFI's historical principles for inventory measurement had utilized net realizable value, and, therefore, adoption of the ASU had no material impact on UNIFI's consolidated financial statements.

Based on UNIFI's review of ASUs issued since the filing of the 2017 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. Receivables, Net

Receivables, net consists of the following:

	December 24, 2017	June 25, 2017
Customer receivables	\$ 82,637	\$ 83,291
Allowance for uncollectible accounts	(2,089)	(2,222)
Reserves for yarn quality claims	(731)	(1,278)
Net customer receivables	79,817	79,791
Other receivables	1,030	1,330
Total receivables, net	<u>\$ 80,847</u>	<u>\$ 81,121</u>

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

There have been no material changes in UNIFI's allowance for uncollectible accounts since June 25, 2017.

The changes in UNIFI's reserves for yarn quality claims were as follows:

	Reserves for Yarn Quality Claims
Balance at June 25, 2017	\$ (1,278)
Charged to costs and expenses	(616)
Translation activity	(12)
Deductions	1,175
Balance at December 24, 2017	<u>\$ (731)</u>

5. Inventories

Inventories consists of the following:

	December 24, 2017	June 25, 2017
Raw materials	\$ 38,342	\$ 36,748
Supplies	6,537	6,104
Work in process	6,819	7,399
Finished goods	66,872	63,121
Gross inventories	118,570	113,372
Inventory reserves	(2,331)	(1,967)
Total inventories	<u>\$ 116,239</u>	<u>\$ 111,405</u>

6. Property, Plant and Equipment, Net

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

	December 24, 2017	June 25, 2017
Land	\$ 2,931	\$ 2,931
Land improvements	15,099	15,066
Buildings and improvements	157,984	157,115
Assets under capital leases	34,568	34,568
Machinery and equipment	586,798	579,211
Computers, software and office equipment	19,850	19,360
Transportation equipment	4,780	4,798
Construction in progress	8,820	7,371
Gross property, plant and equipment	830,830	820,420
Less: accumulated depreciation	(621,107)	(612,355)
Less: accumulated amortization – capital leases	(6,024)	(4,677)
Total PP&E	<u>\$ 203,699</u>	<u>\$ 203,388</u>

Depreciation expense and repair and maintenance expenses were as follows:

	For the Three Months Ended		For the Six Months Ended	
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016
Depreciation expense	\$ 5,237	\$ 4,486	\$ 10,360	\$ 8,700
Repair and maintenance expenses	4,779	4,514	9,504	8,754

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

7. Accrued Expenses

Accrued expenses consists of the following:

	December 24, 2017	June 25, 2017
Payroll and fringe benefits	\$ 7,277	\$ 10,469
Other	5,713	5,675
Total accrued expenses	\$ 12,990	\$ 16,144

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.

8. 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 December 24, 2017	Principal Amounts as of	
			December 24, 2017	June 25, 2017
ABL Revolver	March 2020	3.3%	\$ 21,900	\$ 9,300
ABL Term Loan ⁽¹⁾	March 2020	3.3%	90,000	95,000
Capital lease obligations	(2)	3.7%	21,640	25,168
Total debt			133,540	129,468
Current portion of capital lease obligations			(7,112)	(7,060)
Current portion of other long-term debt			(10,000)	(10,000)
Unamortized debt issuance costs			(840)	(1,026)
Total long-term debt			\$ 115,588	\$ 111,382

(1) Includes the effects of interest rate swaps.

(2) Scheduled maturity dates for capital lease obligations range from July 2018 to November 2027.

ABL Facility

On March 26, 2015, Unifi, Inc. and its subsidiary, Unifi Manufacturing, Inc., entered into an Amended and Restated Credit Agreement for a \$200,000 senior secured credit facility (the "ABL Facility") with a syndicate of lenders. The ABL Facility consists of 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 March 26, 2020.

Scheduled Debt Maturities

The following table presents the scheduled maturities of UNIFI's outstanding debt obligations for the remainder of fiscal 2018 and the fiscal years thereafter:

	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Thereafter
ABL Revolver	\$ —	\$ —	\$ 21,900	\$ —	\$ —	\$ —
ABL Term Loan	5,000	10,000	75,000	—	—	—
Capital lease obligations	3,533	6,996	5,519	2,624	2,417	551
Total	\$ 8,533	\$ 16,996	\$ 102,419	\$ 2,624	\$ 2,417	\$ 551

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

9. Other Long-Term Liabilities

Other long-term liabilities consists of the following:

	<u>December 24, 2017</u>	<u>June 25, 2017</u>
Uncertain tax positions	\$ 5,293	\$ 5,077
Other	5,800	6,727
Total other long-term liabilities	\$ 11,093	\$ 11,804

Other primarily includes UNIFI's unfunded supplemental post-employment plan, certain retiree and post-employment medical and disability liabilities, deferred revenue and deferred energy incentive credits.

10. Income Taxes

The provision for income taxes was as follows:

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>December 24, 2017</u>	<u>December 25, 2016</u>	<u>December 24, 2017</u>	<u>December 25, 2016</u>
(Benefit) provision for income taxes	\$ (4,826)	\$ 1,924	\$ (1,630)	\$ 5,650
Effective tax rate	(69.2)%	30.6%	(8.5)%	29.5%

H.R. 1, formerly known as the Tax Cuts and Jobs Act, was enacted on December 22, 2017. 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%, a one-time mandatory deemed repatriation of foreign earning and profits (the "toll charge"), deductions, credits and business-related exclusions.

The permanent reduction to the U.S. federal corporate income tax rate from 35% to 21% was effective January 1, 2018. When a U.S. federal tax rate change occurs during a fiscal year, taxpayers are required to compute a weighted daily average rate for the fiscal year of enactment. As a result of H.R. 1, UNIFI has calculated a U.S. federal corporate income tax rate of 28.25% for its fiscal 2018 tax year.

The effective tax rates for the periods presented above are lower than the U.S. statutory tax 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 revalued its measurable deferred tax balances based upon the new tax rate at which the temporary differences and carryforwards are expected to reverse. UNIFI recorded a tax benefit of approximately \$4,500 as a result of the net change in deferred tax balances. UNIFI determined that the impact of the U.S. federal corporate income tax rate change on the U.S. deferred tax assets and liabilities is provisional because the number cannot be calculated until the underlying timing differences are known rather than estimated.

Specific to the toll charge, UNIFI has recorded a \$1,700 provisional charge, net of foreign tax credits, based on the following estimates: (i) earnings and profits of foreign jurisdictions that will not be complete until the end of fiscal 2018, (ii) the aggregate cash position at June 24, 2018 and (iii) finalization of taxes paid in foreign jurisdictions. Additionally, the estimates have been made based on UNIFI's interpretation of H.R. 1. The U.S. Treasury has indicated in Notice 2018-07 that it expects to issue further guidance to clarify certain technical aspects of H.R. 1, which could impact UNIFI's computations and provisional amounts recorded.

Within the calculation of the annual effective tax rate, UNIFI has used assumptions and estimates that may change as a result of future guidance, interpretation, and rulemaking from the Internal Revenue Service, the SEC, the FASB and/or various other taxing authorities. For example, UNIFI anticipates that state taxing authorities will continue to determine and announce their conformity to H.R. 1 which could have an impact on UNIFI's annual effective tax rate.

UNIFI continues to review the anticipated impacts of the global intangible low-taxed income ("GILTI") and base erosion anti-abuse tax ("BEAT"), which are not effective until fiscal 2019. UNIFI has not recorded any impact associated with either GILTI or BEAT.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

UNIFI has recorded all known and estimable impacts of H.R. 1 that are effective for fiscal 2018. Future adjustments to the provisional numbers will be recorded as discrete adjustments to income tax expense in the period in which those adjustments become estimable and/or are finalized.

UNIFI regularly assesses the outcomes of both completed and ongoing examinations to ensure that UNIFI's 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.

UNIFI also 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. Due to new facts and circumstances in the second quarter of fiscal 2018, UNIFI has determined it can utilize certain NOLs to offset future taxable income and has reduced the corresponding valuation allowance by \$3,807. There was also a reduction to valuation allowances on U.S. deferred tax assets in the current period as a result of the lower U.S. statutory tax rate under H.R. 1.

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

	December 24, 2017	June 25, 2017
Investment in a former domestic unconsolidated affiliate	\$ (3,958)	\$ (6,269)
Equity-method investment in PAL	(1,217)	(1,520)
Certain losses carried forward (1)	(1,548)	(5,924)
State NOLs	(108)	(108)
Other foreign NOLs (2)	(2,963)	(3,347)
Foreign tax credits	(1,167)	(789)
Total deferred tax valuation allowance	<u>\$ (10,961)</u>	<u>\$ (17,957)</u>

- (1) Certain U.S. NOLs and capital losses outside the U.S. consolidated tax filing group.
(2) Presented net of certain NOL carryforward deferred tax assets.

11. Shareholders' Equity

	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	54	6	213	—	—	219
Conversion of restricted stock units	3	—	—	—	—	—
Stock-based compensation	4	—	3,079	—	—	3,079
Other comprehensive income, net of tax	—	—	—	—	1,423	1,423
Net income	—	—	—	20,762	—	20,762
Balance at December 24, 2017	<u>18,291</u>	<u>\$ 1,829</u>	<u>\$ 55,215</u>	<u>\$ 360,702</u>	<u>\$ (31,457)</u>	<u>\$ 386,289</u>

No dividends were paid during the six months ended December 24, 2017 or in the two most recently completed fiscal years.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

12. Stock-Based Compensation

The following table provides information as of December 24, 2017 with respect to the number of securities remaining available for future issuance under the Unifi, Inc. 2013 Incentive Compensation Plan (the “2013 Plan”):

Authorized under the 2013 Plan	1,000
Plus: Certain awards expired, forfeited or otherwise terminated unexercised	343
Less: Awards granted to employees	(678)
Less: Awards granted to non-employee directors	(133)
Available for issuance under the 2013 Plan	<u>532</u>

During the six months ended December 24, 2017 and December 25, 2016, UNIFI granted stock options to purchase 54 and 128 shares of common stock, respectively.

During the six months ended December 24, 2017 and December 25, 2016, UNIFI granted 90 and 31 restricted stock units (“RSUs”), respectively.

13. 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 Six Months Ended	
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016
Interest expense	\$ 1,190	\$ 914	\$ 2,375	\$ 1,606
Increase in fair value of interest rate swaps	(1,077)	(89)	(1,492)	(188)
Impact of interest rate swaps on interest expense	123	65	254	137

For the six months ended December 24, 2017 and December 25, 2016, 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.

14. 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 25, 2017	\$ (32,372)	\$ (508)	\$ (32,880)
Other comprehensive (loss) income, net of tax	(69)	1,492	1,423
Balance at December 24, 2017	<u>\$ (32,441)</u>	<u>\$ 984</u>	<u>\$ (31,457)</u>

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

A summary of the after-tax effects of the components of other comprehensive (loss) income, net for the three-month and six-month periods ended December 24, 2017 and December 25, 2016 is included in the accompanying condensed consolidated statements of comprehensive income.

15. Earnings Per Share

The components of the calculation of earnings per share (“EPS”) are as follows:

	For the Three Months Ended		For the Six Months Ended	
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016
Net income attributable to Unifi, Inc.	\$ 11,802	\$ 4,591	\$ 20,762	\$ 13,994
Basic weighted average shares	18,273	18,128	18,260	18,045
Net potential common share equivalents – stock options and RSUs	378	314	338	346
Diluted weighted average shares	18,651	18,442	18,598	18,391
Excluded from diluted weighted average shares:				
Anti-dilutive common share equivalents	60	185	290	271

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.

16. 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 December 24, 2017, UNIFI’s investment in PAL was \$110,321 and UNIFI’s combined investments in UNF and UNFA were \$3,302, 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 December 2017, 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 December 24, 2017	\$ 128,412
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 December 24, 2017	<u>\$ 110,321</u>

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.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

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 December 24, 2017, UNIFI's open purchase orders related to this agreement were \$3,158.

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

	For the Six Months Ended	
	December 24, 2017	December 25, 2016
UNF	\$ 1,141	\$ 1,250
UNFA	10,406	9,579
Total	\$ 11,547	\$ 10,829

As of December 24, 2017 and June 25, 2017, UNIFI had combined accounts payable due to UNF and UNFA of \$1,483 and \$2,301, respectively.

UNIFI has determined that UNF and UNFA are variable interest entities ("VIEs") and 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 because 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 December 24, 2017		
	PAL	Other	Total
Current assets	\$ 265,491	\$ 8,797	\$ 274,288
Noncurrent assets	171,256	971	172,227
Current liabilities	56,134	3,262	59,396
Noncurrent liabilities	2,933	—	2,933
Shareholders' equity and capital accounts	377,680	6,506	384,186
UNIFI's portion of undistributed earnings	41,432	1,411	42,843

	As of June 25, 2017		
	PAL	Other	Total
Current assets	\$ 247,820	\$ 10,340	\$ 258,160
Noncurrent assets	183,418	1,039	184,457
Current liabilities	54,389	3,588	57,977
Noncurrent liabilities	3,263	—	3,263
Shareholders' equity and capital accounts	373,586	7,791	381,377

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

	For the Three Months Ended December 24, 2017		
	PAL	Other	Total
Net sales	\$ 176,577	\$ 6,756	\$ 183,333
Gross profit	2,379	1,628	4,007
(Loss) income from operations	(1,922)	1,185	(737)
Net (loss) income	(1,398)	1,198	(200)
Depreciation and amortization	10,885	47	10,932
Cash received by PAL under cotton rebate program	4,701	—	4,701
Earnings recognized by PAL for cotton rebate program	3,191	—	3,191
Distributions received	—	1,500	1,500

	For the Three Months Ended December 25, 2016		
	PAL	Other	Total
Net sales	\$ 153,074	\$ 5,056	\$ 158,130
Gross profit	1,765	983	2,748
(Loss) income from operations	(2,849)	509	(2,340)
Net (loss) income	(2,238)	513	(1,725)
Depreciation and amortization	11,708	45	11,753
Cash received by PAL under cotton rebate program	3,635	—	3,635
Earnings recognized by PAL for cotton rebate program	2,907	—	2,907
Distributions received	—	750	750

	For the Six Months Ended December 24, 2017		
	PAL	Other	Total
Net sales	\$ 379,368	\$ 12,449	\$ 391,817
Gross profit	16,089	2,582	18,671
Income from operations	8,034	1,694	9,728
Net income	6,948	1,716	8,664
Depreciation and amortization	20,485	94	20,579
Cash received by PAL under cotton rebate program	6,942	—	6,942
Earnings recognized by PAL for cotton rebate program	6,446	—	6,446
Distributions received	7,178	1,500	8,678

	For the Six Months Ended December 25, 2016		
	PAL	Other	Total
Net sales	\$ 358,974	\$ 11,058	\$ 370,032
Gross profit	7,261	2,528	9,789
(Loss) income from operations	(1,988)	1,594	(394)
Net (loss) income	(1,364)	1,610	246
Depreciation and amortization	23,184	84	23,268
Cash received by PAL under cotton rebate program	7,762	—	7,762
Earnings recognized by PAL for cotton rebate program	6,796	—	6,796
Distributions received	—	1,500	1,500

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

17. 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 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, UNIFI 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 UNIFI of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to UNIFI'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.

UNIFI continues to own property acquired in the 2004 transaction with INVISTA that has contamination from DuPont's operations and is monitored by DEQ. This 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 UNIFI, DuPont has a duty to monitor and report the environmental status of the site to DEQ. UNIFI expects to assume that responsibility in fiscal 2018 and will be entitled to receive from DuPont seven years of monitoring and reporting costs, less certain adjustments. At that time, UNIFI will assume responsibility for any future remediation of the site. At this time, UNIFI has no basis to determine if or when it will have any obligation to perform further remediation or the potential cost thereof.

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.

18. 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 2017 Form 10-K.

Related party receivables consists of the following:

	<u>December 24, 2017</u>	<u>June 25, 2017</u>
Salem Global Logistics, Inc.	\$ 7	\$ 6
Total related party receivables (included within receivables, net)	<u>\$ 7</u>	<u>\$ 6</u>

Related party payables consists of the following:

	<u>December 24, 2017</u>	<u>June 25, 2017</u>
Salem Leasing Corporation (included within accounts payable)	\$ 294	\$ 298
Salem Leasing Corporation (capital lease obligation)	911	947
Total related party payables	<u>\$ 1,205</u>	<u>\$ 1,245</u>

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

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

<u>Affiliated Entity</u>	<u>Transaction Type</u>	<u>For the Three Months Ended</u>	
		<u>December 24, 2017</u>	<u>December 25, 2016</u>
Salem Leasing Corporation	Transportation equipment costs and capital lease debt service	\$ 969	\$ 1,291
Salem Global Logistics, Inc.	Freight service income	50	31

<u>Affiliated Entity</u>	<u>Transaction Type</u>	<u>For the Six Months Ended</u>	
		<u>December 24, 2017</u>	<u>December 25, 2016</u>
Salem Leasing Corporation	Transportation equipment costs and capital lease debt service	\$ 1,950	\$ 2,269
Salem Global Logistics, Inc.	Freight service income	92	52

19. 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 Chief 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 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 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") to similar customers utilizing similar methods of distribution. These operations derive revenues 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 sell into an economic trading zone covered by NAFTA and CAFTA-DR 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 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 the economic trading zone covered by NAFTA and CAFTA-DR. 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 and Repeve Renewables, LLC ("Renewables") (up through December 23, 2016, the date of the sale by UNIFI of its 60% equity ownership interest in Renewables). For-hire transportation services revenue is derived from performing common carrier services utilizing UNIFI's fleet of transportation equipment. Revenue for Renewables was primarily derived from (i) facilitating the use of miscanthus grass as bio-fuel through service agreements and (ii) delivering harvested miscanthus grass to poultry producers for animal bedding.

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

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 (Loss), which represents segment gross profit (loss) plus segment depreciation expense. This measurement of segment profit or loss 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 December 24, 2017				
	Polyester	Nylon	International	All Other	Total
Net sales	\$ 90,316	\$ 25,103	\$ 51,046	\$ 1,013	\$ 167,478
Cost of sales	81,740	22,027	40,072	963	144,802
Gross profit	8,576	3,076	10,974	50	22,676
Segment depreciation expense	3,973	552	397	64	4,986
Segment Profit	<u>\$ 12,549</u>	<u>\$ 3,628</u>	<u>\$ 11,371</u>	<u>\$ 114</u>	<u>\$ 27,662</u>

	For the Three Months Ended December 25, 2016				
	Polyester	Nylon	International	All Other	Total
Net sales	\$ 86,671	\$ 28,302	\$ 38,868	\$ 1,314	\$ 155,155
Cost of sales	76,200	25,679	29,419	1,727	133,025
Gross profit (loss)	10,471	2,623	9,449	(413)	22,130
Segment depreciation expense	3,384	530	228	244	4,386
Segment Profit (Loss)	<u>\$ 13,855</u>	<u>\$ 3,153</u>	<u>\$ 9,677</u>	<u>\$ (169)</u>	<u>\$ 26,516</u>

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

	For the Three Months Ended	
	December 24, 2017	December 25, 2016
Polyester	\$ 8,576	\$ 10,471
Nylon	3,076	2,623
International	10,974	9,449
All Other	50	(413)
Segment gross profit	22,676	22,130
Selling, general and administrative expenses	14,626	12,868
Benefit for bad debts	(72)	(95)
Other operating expense, net	348	319
Operating income	7,774	9,038
Interest income	(181)	(183)
Interest expense	1,190	914
Loss on sale of business	—	1,662
Equity in (earnings) loss of unconsolidated affiliates	(211)	367
Income before income taxes	<u>\$ 6,976</u>	<u>\$ 6,278</u>

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

Selected financial information is presented below:

	For the Six Months Ended December 24, 2017				
	Polyester	Nylon	International	All Other	Total
Net sales	\$ 178,054	\$ 51,930	\$ 99,705	\$ 2,031	\$ 331,720
Cost of sales	160,565	45,540	77,733	1,914	285,752
Gross profit	17,489	6,390	21,972	117	45,968
Segment depreciation expense	7,840	1,089	813	129	9,871
Segment Profit	<u>\$ 25,329</u>	<u>\$ 7,479</u>	<u>\$ 22,785</u>	<u>\$ 246</u>	<u>\$ 55,839</u>

	For the Six Months Ended December 25, 2016				
	Polyester	Nylon	International	All Other	Total
Net sales	\$ 171,356	\$ 56,797	\$ 84,212	\$ 2,759	\$ 315,124
Cost of sales	152,435	51,037	62,493	3,482	269,447
Gross profit (loss)	18,921	5,760	21,719	(723)	45,677
Segment depreciation expense	6,492	1,040	474	496	8,502
Segment Profit (Loss)	<u>\$ 25,413</u>	<u>\$ 6,800</u>	<u>\$ 22,193</u>	<u>\$ (227)</u>	<u>\$ 54,179</u>

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

	For the Six Months Ended	
	December 24, 2017	December 25, 2016
Polyester	\$ 17,489	\$ 18,921
Nylon	6,390	5,760
International	21,972	21,719
All Other	117	(723)
Segment gross profit	45,968	45,677
Selling, general and administrative expenses	27,489	24,278
Benefit for bad debts	(131)	(462)
Other operating expense, net	663	249
Operating income	17,947	21,612
Interest income	(262)	(329)
Interest expense	2,375	1,606
Loss on sale of business	—	1,662
Equity in earnings of unconsolidated affiliates	(3,298)	(473)
Income before income taxes	<u>\$ 19,132</u>	<u>\$ 19,146</u>

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

	December 24, 2017	June 25, 2017
Polyester	\$ 266,522	\$ 270,819
Nylon	60,210	57,789
International	95,198	80,824
Segment total assets	421,930	409,432
Other current assets	33,033	27,375
Other PP&E	15,988	14,904
Other non-current assets	2,891	279
Investments in unconsolidated affiliates	113,623	119,513
Total assets	<u>\$ 587,465</u>	<u>\$ 571,503</u>

Unifi, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

20. Supplemental Cash Flow Information

Cash payments for interest and taxes consist of the following:

	For the Six Months Ended	
	December 24, 2017	December 25, 2016
Interest, net of capitalized interest of \$85 and \$395, respectively	\$ 2,130	\$ 1,527
Income taxes, net of refunds	5,340	5,695

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

Non-Cash Investing and Financing Activities

As of December 24, 2017 and June 25, 2017, \$2,610 and \$3,234, respectively, were included in accounts payable for unpaid capital expenditures. As of December 25, 2016 and June 26, 2016, \$3,700 and \$4,197, respectively, were included in accounts payable for unpaid capital expenditures.

During the six months ended December 25, 2016, UNIFI recorded \$5,139 to construction in progress and long-term debt, in connection with a historical construction financing arrangement.

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 December 24, 2017, while a reference to the "prior period" refers to the three-month period ended December 25, 2016. A reference to the "current six-month period" refers to the six-month period ended December 24, 2017, while a reference to the "prior six-month period" refers to the six-month period ended December 25, 2016. Such references may be accompanied by certain phrases for added clarity.

Our discussions in this Item 2 are based upon the more detailed discussions about our business, operations and financial condition included in the 2017 Form 10-K. These discussions focus on our results during, or as of, the three months and six months ended December 24, 2017 and December 25, 2016, and, to the extent applicable, any material changes from the information discussed in the 2017 Form 10-K or other important intervening developments or information. These discussions should be read in conjunction with the 2017 Form 10-K for more detailed and background information.

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

Overview and Significant General Matters

UNIFI remains focused on delivering PVA products and solutions to customers and brand partners throughout the world, leveraging an enhanced supply chain that delivers a diverse range of synthetic and recycled fibers and polymers. This strategic and synergistic focus includes a number of supporting pillars, such as investing in commercial expansion; growing our existing portfolio of technologies and capabilities; engaging in strategic partnerships; and investing in UNIFI's people and teams. UNIFI remains committed to these strategic initiatives, 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, 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.

Significant highlights for the current period and the current six-month period include the following, each of which is outlined in more detail below:

- Net sales for the current period increased \$12,323, or 7.9%, to \$167,478, compared to \$155,155 for the prior period, and increased \$11,433, or 7.4%, when excluding the impact of foreign currency translation;
- Net sales for the current six-month period increased \$16,596, or 5.3%, to \$331,720, compared to \$315,124 for the prior six-month period, and increased \$14,985, or 4.8%, when excluding the impact of foreign currency translation;
- Revenues from PVA products for the current period grew more than 20% compared to the prior period, and represented more than 45% of consolidated net sales;
- Gross margin was 13.5% for the current period, compared to 14.3% for the prior period, and was 13.9% for the current six-month period, compared to 14.5% for the prior six-month period;
- Operating income was \$7,774 for the current period, compared to \$9,038 for the prior period, and was \$17,947 for the current six-month period, compared to \$21,612 for the prior six-month period; and
- Diluted EPS was \$0.63 for the current period, compared to \$0.25 for the prior period, and was \$1.12 for the current six-month period, compared to \$0.76 for the prior six-month period.

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 income attributable to Unifi, Inc. ("Net Income") and diluted EPS;

- Segment Profit (Loss), which represents segment gross profit (loss) 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 Income before net interest expense, income tax expense and depreciation and amortization expense;
- Adjusted EBITDA, which represents EBITDA adjusted to exclude equity in loss (earnings) of PAL, and, from time to time, certain other adjustments necessary to understand and compare the underlying results of UNIFI;
- Adjusted Net Income, which represents Net Income calculated under GAAP, adjusted to exclude the approximate after-tax impact of certain income or expense items (as well as specific impacts to the provision for income taxes) necessary to understand and compare the underlying results of UNIFI. Adjusted Net Income excludes certain amounts which management believes do not reflect the ongoing operations and performance of UNIFI;
- Adjusted EPS, which represents Adjusted Net Income divided by UNIFI’s diluted weighted average common shares outstanding; and
- Adjusted Working Capital, which represents receivables plus inventory, less accounts payable and accrued expenses.

EBITDA, Adjusted EBITDA, Adjusted Net Income, Adjusted EPS 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 loss (earnings) of PAL is excluded from Adjusted EBITDA because such results do not reflect our operating performance.

Management uses Adjusted Net Income and Adjusted EPS (i) as measurements of net operating performance because they assist us in comparing such performance on a consistent basis, as they remove the impact of (a) items that we would not expect to occur as a part of our normal business on a regular basis and (b) components of the provision for income taxes that we would not expect to occur as a part of our underlying taxable operations; (ii) for planning purposes, including the preparation of our annual operating budget; and (iii) as measures in determining the value of other acquisitions and dispositions.

Historically, EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted EPS aimed to exclude the impact of the non-controlling interest in Renewables, while the consolidated amounts for such entity were required to be included in UNIFI’s financial amounts reported under GAAP.

Management uses Adjusted Working Capital as an indicator of UNIFI’s production efficiency and ability to manage inventory and receivables.

Non-GAAP Reconciliations

EBITDA and Adjusted EBITDA

The reconciliations of the amounts reported under GAAP for Net Income to EBITDA and Adjusted EBITDA are as follows:

	For the Three Months Ended		For the Six Months Ended	
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016
Net income attributable to Unifi, Inc.	\$ 11,802	\$ 4,591	\$ 20,762	\$ 13,994
Interest expense, net	1,009	716	2,113	1,246
(Benefit) provision for income taxes	(4,826)	1,924	(1,630)	5,650
Depreciation and amortization expense	5,532	4,830	10,949	9,396
EBITDA	13,517	12,061	32,194	30,286
Equity in loss (earnings) of PAL	376	745	(2,478)	431
EBITDA excluding PAL	13,893	12,806	29,716	30,717
Loss on sale of business (1)	—	1,662	—	1,662
Adjusted EBITDA	\$ 13,893	\$ 14,468	\$ 29,716	\$ 32,379

(1) For the three and six months ended December 25, 2016, UNIFI incurred a loss on the sale of its historical investment in Renewables of \$1,662.

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.

Adjusted Net Income and Adjusted EPS

The tables below set forth reconciliations of (i) Income before income taxes (“Pre-tax Income”), Provision for income taxes (“Tax Impact”) and Net Income to Adjusted Net Income and (ii) Diluted EPS to Adjusted EPS:

	For the Three Months Ended December 24, 2017				For the Three Months Ended December 25, 2016			
	Pre-tax Income	Tax Impact	Net Income	Diluted EPS	Pre-tax Income	Tax Impact	Net Income	Diluted EPS
GAAP results	\$ 6,976	\$ 4,826	\$ 11,802	\$ 0.63	\$ 6,278	\$ (1,924)	\$ 4,591	\$ 0.25
Certain tax valuation allowance reversal (1)	—	(3,807)	(3,807)	(0.20)	—	—	—	—
Loss on sale of business (2)	—	—	—	—	1,662	—	1,662	0.09
Adjusted results	\$ 6,976	\$ 1,019	\$ 7,995	\$ 0.43	\$ 7,940	\$ (1,924)	\$ 6,253	\$ 0.34

Diluted weighted average common shares outstanding 18,651 18,442

	For the Six Months Ended December 24, 2017				For the Six Months Ended December 25, 2016			
	Pre-tax Income	Tax Impact	Net Income	Diluted EPS	Pre-tax Income	Tax Impact	Net Income	Diluted EPS
GAAP results	\$ 19,132	\$ 1,630	\$ 20,762	\$ 1.12	\$ 19,146	\$ (5,650)	\$ 13,994	\$ 0.76
Certain tax valuation allowance reversal (1)	—	(3,807)	(3,807)	(0.21)	—	—	—	—
Loss on sale of business (2)	—	—	—	—	1,662	—	1,662	0.09
Adjusted results	\$ 19,132	\$ (2,177)	\$ 16,955	\$ 0.91	\$ 20,808	\$ (5,650)	\$ 15,656	\$ 0.85

Diluted weighted average common shares outstanding 18,598 18,391

- (1) In the three months ended December 24, 2017, UNIFI reversed a \$3,807 valuation allowance on certain historical NOLs in connection with a tax status change unrelated to the federal tax reform legislation signed into law in December 2017.
- (2) For the three and six months ended December 25, 2016, UNIFI incurred a loss on the sale of its historical investment in Renewables of \$1,662. There was no tax impact for this transaction as the loss was non-deductible.

Working Capital and Adjusted Working Capital

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

Results of Operations

Three Months Ended December 24, 2017 Compared to Three Months Ended December 25, 2016

Consolidated Overview

The components of Net 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					
	December 24, 2017			December 25, 2016		
		% of Net Sales		% of Net Sales	% Change	
Net sales	\$ 167,478	100.0	\$ 155,155	100.0	7.9	
Cost of sales	144,802	86.5	133,025	85.7	8.9	
Gross profit	22,676	13.5	22,130	14.3	2.5	
Selling, general and administrative expenses	14,626	8.7	12,868	8.3	13.7	
Benefit for bad debts	(72)	—	(95)	(0.1)	(24.2)	
Other operating expense, net	348	0.2	319	0.2	9.1	
Operating income	7,774	4.6	9,038	5.9	(14.0)	
Interest expense, net	1,009	0.6	731	0.5	38.0	
Loss on sale of business	—	—	1,662	1.1	nm	
Equity in (earnings) loss of unconsolidated affiliates	(211)	(0.1)	367	0.2	(157.5)	
Income before income taxes	6,976	4.1	6,278	4.1	11.1	
(Benefit) provision for income taxes	(4,826)	(2.9)	1,924	1.2	(350.8)	
Net income including non-controlling interest	11,802	7.0	4,354	2.9	171.1	
Less: net loss attributable to non-controlling interest	—	—	(237)	(0.1)	(100.0)	
Net income attributable to Unifi, Inc.	<u>\$ 11,802</u>	<u>7.0</u>	<u>\$ 4,591</u>	<u>3.0</u>	<u>157.1</u>	

nm – Not meaningful

Consolidated Net Sales

Consolidated net sales for the current period increased by \$12,323, or 7.9%, as compared to the prior period.

Consolidated sales volumes increased 14.5%, attributable to continued growth in sales of recycled polyester Chip and plastic bottle flake in the Polyester Segment and sales of staple fiber and other PVA products in the International Segment. Sales continue to expand in the International Segment as our PVA portfolio resonates with numerous customers. The increase in sales volumes in our Polyester and International Segments was partially offset by soft yarn sales in the Nylon Segment. We believe the softness in the domestic environment continues to be a challenge for the textile supply chain, while our nylon business results also reflect the current global trend of declines in demand for nylon socks, ladies' hosiery and intimate apparel.

Consolidated average sales prices decreased 6.3%, attributable to disproportionate growth of lower-priced recycled polyester Chip, plastic bottle flake and staple fiber among the Polyester and International Segments, as well as a lower proportion of nylon products that carry higher selling prices. The decrease in consolidated average sales prices was partially offset by a net favorable foreign currency translation compared to the prior period of approximately \$900, primarily associated with the strengthening of the Chinese Renminbi (“RMB”) and the Brazilian Real (“BRL”). PVA products comprised more than 45% of net sales for the current period, while representing approximately 40% of net sales for fiscal 2017.

Consolidated Gross Profit

Gross profit for the current period increased by \$546, or 2.5%, as compared to the prior period. For the International Segment, the current period gross margin rate was impacted by disproportionate growth in lower-margin sales mix and pressure brought by higher costs compared to the prior period. For the Polyester Segment, the decline in gross margin rate was primarily due to a rise in raw material costs, a greater mix of lower margin product sales and incremental depreciation, primarily due to expanded recycling operations, partially offset by the conversion services performed for Eastman Chemical Company ("Eastman") on bi-component machinery, a revenue stream that did not exist in the prior period. The Nylon Segment achieved an increase in gross margin rate due in part to a more favorable sales mix and cost management. Consolidated gross profit for the current period also included approximately \$200 of favorable foreign currency translation reflected in the International Segment.

Further details regarding the changes in net sales and gross profit, by reportable segment, follow.

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				
	December 24, 2017		December 25, 2016		% Change
		% of Net Sales		% of Net Sales	
Net sales	\$ 90,316	100.0	\$ 86,671	100.0	4.2
Cost of sales	81,740	90.5	76,200	87.9	7.3
Gross profit	8,576	9.5	10,471	12.1	(18.1)
Depreciation expense	3,973	4.4	3,384	3.9	17.4
Segment Profit	\$ 12,549	13.9	\$ 13,855	16.0	(9.4)

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

Net sales for the prior period	\$ 86,671
Increase in sales volumes	6,192
Net change in average selling price and sales mix	(2,547)
Net sales for the current period	\$ 90,316

The increase in net sales for the Polyester Segment was primarily attributable to (i) higher sales of plastic bottle flake, recycled polyester Chip and POY and (ii) the conversion services performed for Eastman on bi-component machinery. The unfavorable change in sales price and mix was due to (a) lower sales volumes of higher-priced textured and dyed yarns and (b) higher sales volumes of lower-priced plastic bottle flake, recycled polyester Chip and POY.

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

Segment Profit for the prior period	\$ 13,855
Net decrease in underlying margins	(2,296)
Increase in sales volumes	990
Segment Profit for the current period	\$ 12,549

The decrease in Segment Profit for the Polyester Segment was primarily attributable to the unfavorable sales mix shift towards lower-margin products discussed above in the net sales analysis, along with raw material cost pressures, partially offset by the benefit of the conversion services performed for Eastman on bi-component machinery and an increase in sales volumes.

Polyester Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 53.9% and 45.4%, respectively, for the current period, compared to 55.9% and 52.3%, respectively, for the prior 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				
	December 24, 2017		December 25, 2016		% Change
		% of Net Sales		% of Net Sales	
Net sales	\$ 25,103	100.0	\$ 28,302	100.0	(11.3)
Cost of sales	22,027	87.7	25,679	90.7	(14.2)
Gross profit	3,076	12.3	2,623	9.3	17.3
Depreciation expense	552	2.2	530	1.8	4.2
Segment Profit	\$ 3,628	14.5	\$ 3,153	11.1	15.1

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

Net sales for the prior period	\$ 28,302
Decrease in sales volumes	(1,993)
Net change in average selling price and sales mix	(1,206)
Net sales for the current period	\$ 25,103

The decrease in net sales for the Nylon Segment was primarily attributable to (i) lower sales volumes as a result of soft domestic market conditions in which nylon socks, ladies' hosiery and intimates have experienced demand declines and (ii) a lower-priced sales mix.

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

Segment Profit for the prior period	\$ 3,153
Net improvement in underlying margins	697
Decrease in sales volumes	(222)
Segment Profit for the current period	\$ 3,628

The increase in Segment Profit for the Nylon Segment was attributable to a more profitable sales mix and cost management.

Nylon Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 15.0% and 13.1%, respectively, for the current period, compared to 18.2% and 11.9%, respectively, for the prior period.

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				
	December 24, 2017		December 25, 2016		% Change
		% of Net Sales		% of Net Sales	
Net sales	\$ 51,046	100.0	\$ 38,868	100.0	31.3
Cost of sales	40,072	78.5	29,419	75.7	36.2
Gross profit	10,974	21.5	9,449	24.3	16.1
Depreciation expense	397	0.8	228	0.6	74.1
Segment Profit	\$ 11,371	22.3	\$ 9,677	24.9	17.5

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

Net sales for the prior period	\$	38,868
Increase in sales volumes		11,985
Favorable foreign currency translation effects (RMB and BRL)		882
Net change in average selling price and sales mix		(689)
Net sales for the current period	\$	<u>51,046</u>

The increase in net sales for the International Segment was attributable to (i) higher sales volumes from our Asian subsidiaries, primarily relating to our recycled polyester Chip and staple fiber products, with strong demand for REPREVE®, (ii) higher sales volumes at our Brazilian subsidiary due to increased demand for synthetic yarns, including air-covered PVA products for use in applications such as stretch denim, and (iii) favorable foreign currency translation due to the strengthening of the RMB and the BRL. These benefits were partially offset by a decrease in the average selling price in Asia due to a greater mix of lower-priced product sales.

The RMB weighted average exchange rate was 6.61 RMB/U.S. Dollar (“USD”) and 6.84 RMB/USD for the current period and the prior period, respectively. The BRL weighted average exchange rate was 3.24 BRL/USD and 3.29 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	\$	9,677
Increase in sales volumes		2,985
Favorable foreign currency translation effects (RMB and BRL)		221
Decrease in underlying margins		(1,512)
Segment Profit for the current period	\$	<u>11,371</u>

The increase in Segment Profit for the International Segment was attributable to (i) improved sales volumes and (ii) favorable foreign currency translation effects due to the strengthening of the RMB and the BRL versus the USD, partially offset by a greater mix of lower-priced product sales in Asia.

International Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 30.5% and 41.1%, respectively, for the current period, compared to 25.1% and 36.5%, respectively, for the prior period.

Consolidated Selling, General and Administrative Expenses

The change in selling, general and administrative (“SG&A”) expenses is as follows:

SG&A expenses for the prior period	\$	12,868
Increase in compensation expenses		1,895
Increase in supplemental retirement plan expenses		141
Other net decreases		(278)
SG&A expenses for the current period	\$	<u>14,626</u>

Total SG&A expenses were higher for the current period compared to the prior period, primarily as a result of (i) an increase in compensation expenses due to recent talent acquisition and higher incentive compensation expenses and (ii) an increase in supplemental retirement plan expenses due to comparatively higher performance of the stock market index benchmark, partially offset by other net decreases that include fees paid to external service providers and other administrative expenses.

Consolidated Benefit for Bad Debts

There is no significant activity reflected in the current or prior periods.

Consolidated Other Operating Expense, Net

The change in other operating expense, net is primarily attributable to foreign currency losses in the current period, mostly resulting from changes in the value of USDs held by our subsidiary in China, while the prior period includes executive relocation expenses.

Consolidated Interest Expense, Net

Interest expense, net increased from the prior period, as reflected below, primarily due to (i) a higher weighted average interest rate resulting from fixing the variable portion of the interest rate on \$75,000 of debt principal, beginning in May 2017, (ii) less interest capitalized to project costs and (iii) a prior period favorable mark-to-market adjustment on the historical interest rate swap that terminated in May 2017.

	For the Three Months Ended	
	December 24, 2017	December 25, 2016
Interest and fees on the ABL Facility	\$ 932	\$ 806
Other interest	211	259
Subtotal of interest on debt obligations	1,143	1,065
Other components of interest expense	47	(151)
Total interest expense	1,190	914
Interest income	(181)	(183)
Interest expense, net	\$ 1,009	\$ 731

Loss on Sale of Business

On December 23, 2016, UNIFI, through a wholly owned foreign subsidiary, entered into an agreement to sell its historical 60% equity ownership interest in Renewables to the existing third-party joint venture partner for \$500 in cash and release of certain debt obligations. In connection with the transaction, UNIFI recognized a loss on sale of business of \$1,662.

Consolidated (Earnings) Loss from Unconsolidated Affiliates

The components of (earnings) loss from unconsolidated affiliates are as follows:

	For the Three Months Ended	
	December 24, 2017	December 25, 2016
Loss from PAL	\$ 376	\$ 745
Earnings from nylon joint ventures	(587)	(378)
Total equity in (earnings) loss of unconsolidated affiliates	\$ (211)	\$ 367

As a percentage of consolidated income before income taxes 3.0% (5.8)%

UNIFI's 34% share of PAL's loss decreased in the current period versus the prior period, which was primarily attributable to lower depreciation expense. The earnings from the nylon joint ventures experienced an increase primarily due to higher volumes and improved margins for the current period despite overall softness in the nylon market.

Consolidated Income Taxes

The change in consolidated income taxes is as follows:

	For the Three Months Ended	
	December 24, 2017	December 25, 2016
(Benefit) provision for income taxes	\$ (4,826)	\$ 1,924
Effective tax rate	(69.2)%	30.6%

The effective tax rate for the current 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 \$1,700 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 can currently be recognized.

The effective tax rate for the prior period is lower than the U.S. statutory tax rate primarily due to foreign income being taxed at lower rates and a decrease in the valuation allowance for UNIFI's investment in PAL. These benefits were partially offset by losses in tax jurisdictions for which no tax benefit can currently be recognized and state and local income taxes net of federal benefits.

Consolidated Net Income

Net Income for the current period was \$11,802, or \$0.63 per diluted share, compared to \$4,591, or \$0.25 per diluted share, for the prior period. The increase was primarily attributable to (i) a significantly lower effective tax rate and (ii) a prior period loss on sale of business, partially offset by higher operating expenses.

Consolidated Adjusted EBITDA

Adjusted EBITDA for the current period was \$13,893, compared to \$14,468 for the prior period. The decrease was primarily attributable to higher operating expenses, as described in the discussions above.

Results of Operations

Six Months Ended December 24, 2017 Compared to Six Months Ended December 25, 2016

Consolidated Overview

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

	For the Six Months Ended					
	December 24, 2017		December 25, 2016		% Change	
		% of Net Sales		% of Net Sales		
Net sales	\$ 331,720	100.0	\$ 315,124	100.0	5.3	
Cost of sales	285,752	86.1	269,447	85.5	6.1	
Gross profit	45,968	13.9	45,677	14.5	0.6	
Selling, general and administrative expenses	27,489	8.3	24,278	7.7	13.2	
Benefit for bad debts	(131)	—	(462)	(0.1)	(71.6)	
Other operating expense, net	663	0.2	249	0.1	166.3	
Operating income	17,947	5.4	21,612	6.8	(17.0)	
Interest expense, net	2,113	0.6	1,277	0.4	65.5	
Loss on sale of business	—	—	1,662	0.5	nm	
Equity in earnings of unconsolidated affiliates	(3,298)	(1.0)	(473)	(0.2)	597.3	
Income before income taxes	19,132	5.8	19,146	6.1	(0.1)	
(Benefit) provision for income taxes	(1,630)	(0.5)	5,650	1.8	(128.8)	
Net income including non-controlling interest	20,762	6.3	13,496	4.3	53.8	
Less: net loss attributable to non-controlling interest	—	—	(498)	(0.1)	(100.0)	
Net income attributable to Unifi, Inc.	\$ 20,762	6.3	\$ 13,994	4.4	48.4	

nm – Not meaningful

Consolidated Net Sales

Consolidated net sales for the current six-month period increased by \$16,596, or 5.3%, as compared to the prior six-month period.

Consolidated sales volumes increased 11.0%, attributable to continued growth in sales of recycled polyester Chip and plastic bottle flake in the Polyester Segment and staple fiber and other PVA products in the International Segment. Sales continue to expand in the International Segment as our PVA portfolio resonates with numerous customers. The increase in sales volumes was partially offset by soft yarn sales in the Polyester and Nylon Segments. We believe the softness in the domestic environment continues to be a challenge for the textile supply chain. Our nylon business results also reflect the current global trend of declines in demand for nylon socks, ladies' hosiery and intimate apparel.

Consolidated average sales prices decreased 5.5%, attributable to disproportionate growth of lower-priced recycled polyester Chip, plastic bottle flake and staple fiber among the Polyester and International Segments, as well as a lower proportion of nylon products

that carry higher selling prices. The decrease in consolidated sales pricing was partially offset by a benefit from net favorable foreign currency translation compared to the prior period of approximately \$1,600, primarily associated with the strengthening of the BRL and the RMB.

Consolidated Gross Profit

Gross profit for the current six-month period increased by \$291, or 0.6%, as compared to the prior six-month period. The Nylon Segment achieved an increase in gross margin rate due in part to a more favorable sales mix and cost management. For the International Segment, gross profit increased due to sales growth; however, margins were lower due to a less favorable sales mix and pressure from higher costs. For the Polyester Segment, the decline in gross margin rate was primarily due to a greater mix of lower margin product sales and incremental depreciation, primarily due to expanded recycling operations, partially offset by the conversion services performed for Eastman on bi-component machinery, a revenue stream that did not exist in the prior six-month period. Consolidated gross profit for the current six-month period also included approximately \$400 of favorable foreign currency translation.

Further details regarding the changes in net sales and gross profit, by reportable segment, follow.

Polyester Segment

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

	For the Six Months Ended				
	December 24, 2017		December 25, 2016		% Change
		% of Net Sales		% of Net Sales	
Net sales	\$ 178,054	100.0	\$ 171,356	100.0	3.9
Cost of sales	160,565	90.2	152,435	89.0	5.3
Gross profit	17,489	9.8	18,921	11.0	(7.6)
Depreciation expense	7,840	4.4	6,492	3.8	20.8
Segment Profit	\$ 25,329	14.2	\$ 25,413	14.8	(0.3)

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

Net sales for the prior six-month period	\$ 171,356
Increase in sales volumes	12,200
Decrease in average selling price and change in sales mix	(5,502)
Net sales for the current six-month period	\$ 178,054

The increase in net sales for the Polyester Segment was primarily attributable to (i) higher sales of plastic bottle flake, recycled polyester Chip and POY and (ii) the conversion services performed for Eastman on bi-component machinery. The unfavorable change in sales mix was due to (a) lower sales volumes of higher-priced textured, dyed and beamed yarns and (b) higher sales volumes of lower-priced plastic bottle flake, recycled polyester Chip and POY.

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

Segment Profit for the prior six-month period	\$ 25,413
Net decrease in underlying margins	(1,893)
Increase in sales volumes	1,809
Segment Profit for the current six-month period	\$ 25,329

The decrease in Segment Profit for the Polyester Segment was primarily attributable to the unfavorable sales mix shift towards lower-margin products discussed above in the net sales analysis, along with raw material cost pressures, partially offset by the benefit of the conversion services performed for Eastman on bi-component machinery and an increase in sales volumes.

Polyester Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 53.7% and 45.4%, respectively, for the current six-month period, compared to 54.4% and 46.9%, respectively, for the prior six-month 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 six-month period amounts for the Nylon Segment are as follows:

	For the Six Months Ended				
	December 24, 2017		December 25, 2016		% Change
		% of Net Sales		% of Net Sales	
Net sales	\$ 51,930	100.0	\$ 56,797	100.0	(8.6)
Cost of sales	45,540	87.7	51,037	89.9	(10.8)
Gross profit	6,390	12.3	5,760	10.1	10.9
Depreciation expense	1,089	2.1	1,040	1.9	4.7
Segment Profit	<u>\$ 7,479</u>	<u>14.4</u>	<u>\$ 6,800</u>	<u>12.0</u>	<u>10.0</u>

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

Net sales for the prior six-month period	\$ 56,797
Decrease in sales volumes	(3,284)
Decrease in average selling price and change in sales mix	(1,583)
Net sales for the current six-month period	<u>\$ 51,930</u>

The decrease in net sales for the Nylon Segment was primarily attributable to (i) lower sales volumes as a result of soft domestic market conditions in which nylon socks, ladies' hosiery and intimates have experienced demand declines and (ii) a lower-priced sales mix.

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

Segment Profit for the prior six-month period	\$ 6,800
Increase in underlying margins	1,072
Decrease in sales volumes	(393)
Segment Profit for the current six-month period	<u>\$ 7,479</u>

The increase in Segment Profit for the Nylon Segment was attributable to a more profitable sales mix and cost management.

Nylon Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 15.7% and 13.4%, respectively, for the current six-month period, compared to 18.0% and 12.6%, respectively, for the prior six-month period.

International Segment

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

	For the Six Months Ended				
	December 24, 2017		December 25, 2016		% Change
		% of Net Sales		% of Net Sales	
Net sales	\$ 99,705	100.0	\$ 84,212	100.0	18.4
Cost of sales	77,733	78.0	62,493	74.2	24.4
Gross profit	21,972	22.0	21,719	25.8	1.2
Depreciation expense	813	0.9	474	0.6	71.5
Segment Profit	<u>\$ 22,785</u>	<u>22.9</u>	<u>\$ 22,193</u>	<u>26.4</u>	<u>2.7</u>

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

Net sales for the prior six-month period	\$	84,212
Increase in sales volumes		16,807
Net favorable foreign currency translation effects (BRL and RMB)		1,611
Decrease in average selling price and change in sales mix		(2,925)
Net sales for the current six-month period	\$	<u>99,705</u>

The increase in net sales for the International Segment was attributable to (i) higher sales volumes from our Asian subsidiaries due to growth in our REPREVE® portfolios, particularly staple fiber and recycled polyester Chip, (ii) higher sales volumes at our Brazilian subsidiary due to increased demand for synthetic yarns, including air-covered PVA products for use in applications such as stretch denim, and (iii) favorable foreign currency translation due to the strengthening of the BRL and the RMB. These benefits were partially offset by a decrease in the average selling price in Asia due to a greater mix of lower-priced product sales.

The BRL weighted average exchange rate was 3.20 BRL/USD and 3.27 BRL/USD for the current six-month period and the prior six-month period, respectively. The RMB weighted average exchange rate was 6.64 RMB/USD and 6.75 RMB/USD for the current six-month period and the prior six-month period, respectively.

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

Segment Profit for the prior six-month period	\$	22,193
Increase in sales volumes		4,432
Net favorable foreign currency translation effects (BRL and RMB)		427
Decrease in underlying margins		(4,267)
Segment Profit for the current six-month period	\$	<u>22,785</u>

The increase in Segment Profit for the International Segment was attributable to (i) improved sales volumes and (ii) favorable foreign currency translation effects due to the strengthening of both the BRL and the RMB versus the USD, partially offset by a greater mix of lower-margin product sales in Asia.

International Segment net sales and Segment Profit, as a percentage of total consolidated amounts, were 30.1% and 40.8%, respectively, for the current six-month period, compared to 26.7% and 41.0%, respectively, for the prior six-month period.

Consolidated Selling, General and Administrative Expenses

The change in SG&A expenses is as follows:

SG&A expenses for the prior six-month period	\$	24,278
Increase in compensation expenses		3,115
Other net increases		96
SG&A expenses for the current six-month period	\$	<u>27,489</u>

Total SG&A expenses were higher for the current six-month period compared to the prior six-month period, primarily as a result of an increase in compensation expenses due to recent talent acquisition and other net increases.

Consolidated Benefit for Bad Debts

The benefit in the prior six-month period reflects a decrease in the reserve against specifically identified customer balances in the Polyester and International Segments.

Consolidated Other Operating Expense, Net

The change in other operating expense, net is primarily attributable to foreign currency losses in the current six-month period, mostly resulting from changes in the value of USDs held by our subsidiary in China.

Consolidated Interest Expense, Net

Interest expense, net increased from the prior six-month period, as reflected below, primarily due to (i) a higher weighted average interest rate resulting from fixing the variable portion of the interest rate on \$75,000 of debt principal, beginning in May 2017, (ii) less interest capitalized to project costs and (iii) a prior period favorable mark-to-market adjustment on the historical interest rate swap that terminated in May 2017.

	For the Six Months Ended	
	December 24, 2017	December 25, 2016
Interest and fees on the ABL Facility	\$ 1,837	\$ 1,454
Other interest	437	514
Subtotal of interest on debt obligations	2,274	1,968
Other components of interest expense	101	(362)
Total interest expense	2,375	1,606
Interest income	(262)	(329)
Interest expense, net	\$ 2,113	\$ 1,277

Loss on Sale of Business

On December 23, 2016, UNIFI, through a wholly owned foreign subsidiary, entered into an agreement to sell its historical 60% equity ownership interest in Renewables to the existing third-party joint venture partner for \$500 in cash and release of certain debt obligations. In connection with the transaction, UNIFI recognized a loss on sale of business of \$1,662.

Consolidated Earnings from Unconsolidated Affiliates

The components of earnings from unconsolidated affiliates are as follows:

	For the Six Months Ended	
	December 24, 2017	December 25, 2016
(Earnings) loss from PAL	\$ (2,478)	\$ 431
Earnings from nylon joint ventures	(820)	(904)
Total equity in earnings of unconsolidated affiliates	\$ (3,298)	\$ (473)

As a percentage of consolidated income before income taxes 17.2% 2.5%

UNIFI's 34% share of PAL's earnings increased in the current six-month period versus the prior six-month period, which was primarily attributable to improved operating margins and lower depreciation expense. The earnings from the nylon joint ventures experienced a decrease primarily due to softness in the nylon market, consistent with the results of the Nylon Segment, as well as higher raw material costs.

Consolidated Income Taxes

The change in consolidated income taxes is as follows:

	For the Six Months Ended	
	December 24, 2017	December 25, 2016
(Benefit) provision for income taxes	\$ (1,630)	\$ 5,650
Effective tax rate	(8.5)%	29.5%

The effective tax rate for the current six-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 \$1,700 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 can currently be recognized.

The effective tax rate for the prior six-month period is lower than the U.S. statutory tax rate primarily due to foreign income being taxed at lower rates and a decrease in the valuation allowance for UNIFI's investment in PAL. These benefits were partially offset by losses in tax jurisdictions for which no tax benefit can currently be recognized and state and local income taxes net of federal benefits.

Consolidated Net Income

Net Income for the current six-month period was \$20,762, or \$1.12 per diluted share, compared to \$13,994, or \$0.76 per diluted share, for the prior six-month period. The increase was primarily attributable to a significantly lower effective tax rate, higher earnings from PAL and a loss on sale of business in the prior six-month period, partially offset by higher operating expenses and interest expense.

Consolidated Adjusted EBITDA

Adjusted EBITDA for the current six-month period was \$29,716, compared to \$32,379 for the prior six-month period. The decrease was primarily attributable to higher operating expenses, as described in the discussions 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 six-month period, cash generated from operations was \$20,389, and, at December 24, 2017, excess availability under the ABL Revolver was \$54,379.

As of December 24, 2017, all of UNIFI's \$133,540 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, liquidity, working capital and total debt obligations as of December 24, 2017 for domestic and foreign operations:

	Domestic	Foreign	Total
Cash and cash equivalents	\$ 14	\$ 48,601	\$ 48,615
Borrowings available under financing arrangements	54,379	—	54,379
Liquidity	\$ 54,393	\$ 48,601	\$ 102,994
Working capital	\$ 90,441	\$ 105,371	\$ 195,812
Total debt obligations	\$ 133,540	\$ —	\$ 133,540

Debt Obligations

ABL Facility

On March 26, 2015, Unifi, Inc. and its subsidiary, Unifi Manufacturing, Inc., entered into an Amended and Restated Credit Agreement (as subsequently amended, the "Amended Credit Agreement") for a \$200,000 senior secured credit facility (the ABL Facility) with a syndicate of lenders. The ABL Facility consists of 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 March 26, 2020.

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 (the "Loan Parties"). It is also secured by a first-priority security interest in all (or 65% in the case of certain first-tier controlled foreign corporations, 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 monthly basis of at least 1.05 to 1.00 becomes effective. The Trigger Level as of December 24, 2017 was \$23,750. 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 1.50% to 2.00%, or the Base Rate (as defined below) plus an applicable margin of 0.50% to 1.00%, 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 0.50% or (c) LIBOR plus 1.00%. 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 December 24, 2017, UNIFI was in compliance with all financial covenants in the Amended Credit Agreement, and the excess availability under the ABL Revolver was \$54,379. At December 24, 2017, the fixed charge coverage ratio was 1.11 to 1.00 and UNIFI had \$400 of standby letters of credit, none of which had been drawn upon.

UNIFI currently maintains three interest rate swaps that fix LIBOR at approximately 1.9% on \$75,000 of variable-rate debt under the ABL Facility. 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 December 24, 2017	Principal Amounts as of	
			December 24, 2017	June 25, 2017
ABL Revolver	March 2020	3.3%	\$ 21,900	\$ 9,300
ABL Term Loan (1)	March 2020	3.3%	90,000	95,000
Capital lease obligations	(2)	3.7%	21,640	25,168
Total debt			133,540	129,468
Current portion of capital lease obligations			(7,112)	(7,060)
Current portion of other long-term debt			(10,000)	(10,000)
Unamortized debt issuance costs			(840)	(1,026)
Total long-term debt			\$ 115,588	\$ 111,382

(1) Includes the effects of interest rate swaps.

(2) Scheduled maturity dates for capital lease obligations range from July 2018 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 2018 and the fiscal years thereafter:

	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Thereafter
ABL Revolver	\$ —	\$ —	\$ 21,900	\$ —	\$ —	\$ —
ABL Term Loan	5,000	10,000	75,000	—	—	—
Capital lease obligations	3,533	6,996	5,519	2,624	2,417	551
Total	\$ 8,533	\$ 16,996	\$ 102,419	\$ 2,624	\$ 2,417	\$ 551

Working Capital

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

	<u>December 24, 2017</u>	<u>June 25, 2017</u>
Cash and cash equivalents	\$ 48,615	\$ 35,425
Receivables, net	80,847	81,121
Inventories	116,239	111,405
Other current assets	17,466	15,686
Accounts payable	(35,420)	(41,499)
Accrued expenses	(12,990)	(16,144)
Other current liabilities	(18,945)	(18,411)
Working capital	<u>\$ 195,812</u>	<u>\$ 167,583</u>
Less: Cash and cash equivalents	(48,615)	(35,425)
Less: Other current assets	(17,466)	(15,686)
Less: Other current liabilities	18,945	18,411
Adjusted Working Capital	<u>\$ 148,676</u>	<u>\$ 134,883</u>

Working capital increased from \$167,583 as of June 25, 2017 to \$195,812 as of December 24, 2017, while Adjusted Working Capital increased from \$134,883 to \$148,676. Working capital and Adjusted Working Capital are within our range of expectations based on the composition of the underlying business and global structure.

The increase in cash and cash equivalents reflects the strong performance of our international subsidiaries and the intent to leave cash available in foreign jurisdictions for future expansion. The decrease in receivables, net is attributable to lower sales associated with the routine December shutdown period. The increase in inventories is primarily attributable to increased international sales activity and the impact of the routine December shutdown period. The increase in other current assets is attributable to an increase in income taxes receivable. The decrease in accounts payable is mainly due to the routine December shutdown period. The decrease in accrued expenses is primarily attributable to a net decrease in amounts due to employees, resulting from the timing of accrual and payment of (i) variable compensation earned in fiscal 2017 and (ii) routine payrolls. The change in other current liabilities is insignificant.

Capital Projects

During the current six-month period, UNIFI invested approximately \$11,400 in capital projects, primarily relating to routine maintenance expenditures as well as the completion and start-up of the fourth production line in the REPREVE® Recycling Center, which is intended to increase UNIFI's capacity to produce recycled polyester Chip for internal consumption and external sales.

Through the remainder of fiscal 2018, UNIFI expects to invest an additional \$18,600 in capital projects (for an aggregate fiscal 2018 estimate of \$30,000), 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 2018 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 yarns 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 potentially higher sales volumes and an improved mix from higher-margin products.

Stock Repurchase Program

On April 23, 2014, UNIFI announced a stock repurchase program (the “2014 SRP”) to authorize UNIFI to acquire up to \$50,000 of its common stock. Under the 2014 SRP, UNIFI is authorized to repurchase shares at prevailing market prices, through open market purchases or privately negotiated transactions at such times and prices and in such manner as determined by management, subject to market conditions, applicable legal requirements, contractual obligations and other factors. Repurchases, if any, are expected to be financed through cash generated from operations and borrowings under the ABL Revolver, and are subject to applicable limitations and restrictions as set forth in the ABL Facility. The 2014 SRP has no stated expiration or termination date, and there is no time limit or specific time frame otherwise for repurchases. UNIFI may discontinue repurchases at any time that management determines additional purchases are not beneficial or advisable.

UNIFI made no repurchases of its shares of common stock during the current six-month period. As of December 24, 2017, 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. As of December 24, 2017, \$27,603 remained available for share repurchases under the 2014 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 provided by operating activities 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, expansion of our foreign operations may require cash sourced from our domestic subsidiaries.

Cash Provided by Operating Activities

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

	For the Six Months Ended	
	December 24, 2017	December 25, 2016
Net income including non-controlling interest	\$ 20,762	\$ 13,496
Loss on sale of business	—	1,662
Equity in earnings of unconsolidated affiliates	(3,298)	(473)
Depreciation and amortization expense	11,135	9,731
Non-cash compensation expense	3,569	1,862
Deferred income taxes	(6,282)	5,335
Subtotal	25,886	31,613
Distributions received from unconsolidated affiliates	8,678	1,500
Other changes	(14,175)	(15,817)
Net cash provided by operating activities	\$ 20,389	\$ 17,296

The increase in net cash provided by operating activities from the prior six-month period to the current six-month period was primarily due to distributions received from PAL of \$7,178 and a comparably lower build of working capital. The increase was partially offset by lower consolidated earnings, consistent with the comparable decrease in Adjusted EBITDA discussed above.

Cash Used in Investing Activities and Cash Provided by Financing Activities

UNIFI utilized \$11,345 (net) for investing activities and was provided \$3,963 (net) from financing activities during the current six-month period.

Significant investing activities include \$11,360 for capital expenditures, primarily relating to ongoing maintenance capital expenditures and the completion and start-up of the fourth production line in the REPREEVE® Recycling Center, which is intended to increase UNIFI’s capacity to produce recycled polyester Chip for internal consumption and external sales.

Significant financing activities include \$7,600 for net borrowings against long-term debt. The borrowings helped fund the investing activities described above.

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.

There have been no 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 2017 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 2017 Form 10-K. There were no material changes to these policies during the current 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 December 24, 2017, UNIFI had borrowings under its ABL Revolver and ABL Term Loan that totaled \$111,900 and contain variable rates of interest; however, UNIFI hedges a significant portion of such interest rate variability using interest rate swaps. As of December 24, 2017, 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 December 24, 2017 would result in an increase in annual interest expense of less than \$200.

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 December 24, 2017, UNIFI had no outstanding foreign currency forward contracts.

A significant portion of raw materials purchased by UNIFI's Brazilian subsidiary are denominated in USD, requiring UNIFI to regularly exchange BRL. During recent fiscal years, UNIFI was negatively impacted by a devaluation of the BRL. Predicting fluctuations in the BRL is impracticable. Discussion and analysis surrounding the impact of fluctuations of the BRL as well as 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 December 24, 2017, 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 December 24, 2017, \$44,996, or 92.6%, of UNIFI's cash and cash equivalents was held outside the United States, of which \$31,061 was held in USD and \$12,439 was held in BRL.

Raw Material and Commodity Risks

A significant portion of UNIFI's raw materials 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.

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 December 24, 2017, 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 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 the reports 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 it 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 December 24, 2017 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 1A. Risk Factors

There have been no material changes in UNIFI's risk factors from those disclosed in "Item 1A. Risk Factors" in the 2017 Form 10-K.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	<u>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)).</u>
3.2	<u>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)).</u>
10.1+*	<u>Employment Agreement by and between Unifi, Inc. and Mark McNeill, effective as of November 3, 2017.</u>
31.1+	<u>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.</u>
31.2+	<u>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.</u>
32.1++	<u>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.</u>
32.2++	<u>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.</u>
101+	The following financial information (unaudited) from Unifi, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 24, 2017, filed January 31, 2018, formatted in eXtensible Business Reporting Language: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive 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: January 31, 2018

By: /s/ JEFFREY C. ACKERMAN
Jeffrey C. Ackerman
Executive Vice President & Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement"), effective this 3rd day of November, 2017 (the "Effective Date"), is entered into by and between Mark McNeill ("Executive") and Unifi, Inc. (the "Employer" and, collectively with its successors, subsidiaries and affiliated companies, the "Company").

WHEREAS, Executive has heretofore been employed by a subsidiary of the Employer, up to and through the Effective Date, and, understanding and accepting the terms and conditions of Executive's employment as set forth herein, Executive desires to accept employment with the Employer under the terms and restrictions as set forth herein; and

WHEREAS, the Employer desires to retain the services of Executive on the terms and subject to the conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. Employment; Previous Agreements or Arrangements; Release of Claims. Subject to the terms and conditions of this Agreement, the Employer agrees to employ Executive, and Executive agrees to be employed by the Employer, as the Effective Date, pursuant to the terms of this Agreement. This Agreement supersedes and replaces in its entirety any employment agreement, oral or in writing, or comparable arrangements between the Employer or any subsidiary of the Employer and Executive in effect prior to the Effective Date, and any such agreements or arrangements shall be null and void. Executive hereby relinquishes and unconditionally forfeits any claim or entitlement to any severance pay or other post-termination benefits pursuant to any agreement or arrangement other than as contemplated herein.

2. Position. During the period of his employment hereunder, Executive agrees to serve the Company, and the Employer shall employ Executive, as Executive Vice President of Global Innovation. If appointed or elected, Executive also shall serve as an officer, director and/or manager of one or more of the Employer's subsidiaries and affiliated companies in such capacity or capacities as may be determined from time to time.

3. At-Will Employment and Duties.

(a) At-Will Employment. Executive and the Employer agree that Executive's employment by the Employer hereunder will be at-will (as defined under applicable law), and may be terminated at any time, for any reason, at the option of either party, subject to the provisions of this Agreement.

(b) Duties. During the period of his employment hereunder and except for illness, reasonable vacation periods, and reasonable leaves of absence, Executive shall in good faith devote all of his business time, attention, skill and efforts to the business and affairs of the Company. Executive's duties shall be performed under the supervision of the Employer's Chief Executive Officer. The foregoing shall not be construed as prohibiting Executive from serving on corporate, civic or charitable boards or committees or making personal investments, so long as such activities do not materially interfere with the performance of Executive's obligations to the Company as set forth herein.

4. Salary; Bonus; Reimbursement of Expenses; Other Benefits.

(a) Salary. In consideration of the services to be rendered by Executive pursuant to this Agreement, the Employer shall pay, or cause to be paid, to Executive a base salary (the "Base Salary") as established by or pursuant to authority granted by the Employer's board of directors (the "Board"). Executive's initial Base Salary shall be \$325,000.00 per annum. The Base Salary shall be reviewed annually by or pursuant to authority granted by the Board in connection with its annual review of executive compensation to determine if such Base Salary should be increased for the following year in recognition of services to the Company. The Base Salary shall be payable at such intervals in conformity with the Employer's prevailing practice as such practice shall be established or modified from time to time.

(b) Bonuses; Additional Compensation. Executive will be eligible to receive bonuses and to participate in compensation plans of the Employer in accordance with any plan or decision that the Board, or any committee or other person authorized by the Board, may in its sole discretion determine from time to time. For the Employer's 2018 fiscal year, Executive's bonus will be equal to 30%, 50% and 100% of Base Salary for threshold, target and maximum levels of performance, respectively, and will be pro-rated for the period of Executive's employment with the Employer during the fiscal year.

(c) Reimbursement of Expenses. Executive shall be paid or reimbursed by the Employer, in accordance with and subject to the Employer's general expense reimbursement policies and practices, for all reasonable travel and other business expenses incurred by Executive in performing his obligations under this Agreement.

(d) Other Benefits. During the period of employment hereunder, Executive shall be entitled to participate in all other benefits of employment generally available to other executives of the Employer and those benefits for which such persons are or shall become eligible, when and as he becomes eligible therefore. All outstanding unvested equity awards issued to Executive by the Employer shall vest in full upon a "Change of Control" (as such term is defined in the Unifi, Inc. 2013 Incentive Compensation Plan).

5. Termination of Employment.

(a) Termination as a Result of Executive's Death or Disability. Executive's employment hereunder shall terminate automatically upon Executive's death and may be terminated by the Employer upon Executive's "Disability" (as hereinafter defined). If Executive's employment hereunder is terminated by reason of Executive's death or Disability, Executive's (or Executive's estate's) right to benefits under this Agreement will terminate as of the date of such termination and all of the Employer's obligations hereunder shall immediately cease and terminate, except that (i) Executive or Executive's estate, as the case may be, will be entitled to receive accrued Base Salary and benefits through the date of termination and (ii) all outstanding unvested equity awards issued to Executive by the Employer shall vest in full upon such termination of employment. As used herein, Executive's "Disability" shall have the meaning set forth in any long-term disability plan in which Executive participates, and in the absence thereof shall mean the determination in good faith by the Board that, due to physical or mental illness, Executive shall have failed to perform his duties on a full-time basis hereunder for one hundred eighty (180) consecutive days and shall not have returned to the performance of his duties hereunder on a full-time basis before the end of such period. If Disability has occurred, termination of Executive's employment hereunder shall occur within thirty (30) days after written notice of such termination is given (which notice may be given before the end of the one hundred eighty (180) day period described above so as to cause termination of employment to occur as early as the last day of such period).

(b) Termination by Executive for Good Reason or by the Employer other than as a Result of Executive's Death or Disability or for Cause.

(i) Executive may terminate Executive's employment hereunder for "Good Reason" (as hereinafter defined), if Good Reason exists, upon at least five (5) days prior written notice to the Employer, and the Employer may terminate Executive's employment hereunder for any reason or for no reason, other than as a result of Executive's death or Disability or for Cause (as hereinafter defined), in each case with the consequences set forth in this Section 5(b).

(ii) If Executive's employment hereunder is terminated by Executive for Good Reason or by the Employer other than by reason of Executive's death or Disability and other than for Cause, then, subject to Executive entering into and not revoking a release of claims in favor of the Employer and the Company pursuant to Section 5(e) below, and Executive fully complying with the covenants set forth in Section 6, Executive shall be entitled to the following benefits:

(1) Cash severance payments equal in the aggregate to twelve (12) months of Executive's annual Base Salary at the time of termination, payable in twelve (12) equal monthly installments beginning at the end of the first full month following termination of employment.

(2) In the event Executive elects COBRA continuation coverage for the level of medical coverage he had in force at the time of his termination, the Employer shall reimburse Executive for the monthly cost of such continuation coverage until the earlier of (A) the date Executive ceases to maintain such continuation coverage in effect or (B) twelve (12) months from the termination of Executive's employment.

(iii) For purposes of this Agreement, "Good Reason" shall mean: (1) a material reduction (without Executive's express written consent) in Executive's title or responsibilities; (2) the requirement that Executive relocate to an employment location that is more than fifty (50) miles from his employment location on the Effective Date; (3) the Employer's material breach (without Executive's express written consent) of Sections 2 or 4 of this Agreement; or (4) following a Change of Control, Executive not being an officer of the ultimate surviving parent business entity resulting from such Change of Control transaction, in a substantially similar role to that performed by Executive for the Employer prior to such Change of Control, for a period of at least twelve (12) months thereafter; provided, that with respect to the foregoing clauses (1), (2) and (3), Executive has provided the Employer written notice of the event or circumstance purporting to constitute Good Reason within thirty (30) days of the event or circumstance occurring and the Employer has not cured such event or circumstance within fifteen (15) days following the date Executive provides such notice. If the Employer thereafter intentionally repeats the breach it previously cured, such breach shall no longer be deemed curable.

(c) Termination by Executive other than for Good Reason. Executive may terminate his employment with the Employer other than for Good Reason upon thirty (30) days prior written notice to the Employer, after which the Employer shall have no further obligation hereunder to Executive, except for payment of accrued Base Salary and benefits through the termination date. If Executive so notifies the Employer of such termination, the Employer shall have the right to accelerate the effective date of such termination to any date after the Employer's receipt of such notice, but such acceleration will not be deemed to constitute a termination of Executive's employment by the Employer without Cause, and the consequences of such termination will continue to be governed by this subsection.

(d) Termination by the Employer for Cause. The Employer may terminate Executive's employment under this Agreement at any time for "Cause" (as hereinafter defined) whereupon the Employer shall have no further obligation hereunder to Executive, except for payment of amounts of Base Salary and benefits accrued through the termination date. For purposes of this Agreement, "Cause" shall mean: (i) the continued willful failure by Executive to substantially perform his duties to the Company, (ii) the willful engaging by Executive in gross misconduct materially and demonstrably injurious to the Company or (iii) Executive's material breach of Sections 3, 6 or 7 of this Agreement; provided, that with respect to any breach that is curable by Executive, as determined by the Board in good faith, the Employer has provided Executive written notice of the material breach and Executive has not cured such breach, as determined by the Board in good faith, within fifteen (15) days following the date the Employer provides such notice.

(e) Waiver and Release. In consideration for and as a condition to the payments and benefits provided and to be provided under Section 5(b)(ii) of this Agreement other than those provided under Section 9 (indemnification), Executive agrees that Executive will, within thirty (30) days after the termination of Executive's employment hereunder, deliver to the Employer a fully executed release agreement substantially in a form then used by and agreeable to the Employer and which shall fully and irrevocably release and discharge the Company, its directors, officers, and employees from any and all claims, charges, complaints, liabilities of any kind, known or unknown, owed to Executive, other than any rights Executive may have under the terms of this Agreement that survive such termination of employment and other than any vested rights of Executive under any of the Company's employee benefit plans or programs that, by their terms, survive or are unaffected by such termination of employment.

6. Certain Covenants by Executive.

(a) Confidential Information. Executive acknowledges that in his employment hereunder he will occupy a position of trust and confidence. Executive shall not, except in the course of the good faith performance of his duties hereunder or as required by applicable law, without limitation in time or until such information shall have become public other than by Executive's unauthorized disclosure, disclose to others or use, whether directly or indirectly, any Confidential Information (as hereinafter defined) regarding the Company. For purposes of this Agreement, "Confidential Information" shall mean information about the Company or its clients or customers that was learned by Executive in the course of his employment by the Employer, including (without limitation) any proprietary knowledge, trade secrets, data, formulae, information and client and customer lists and all papers, resumes, and records (including computer records) of the documents containing such Confidential Information, but excludes information (i) which is in the public domain through no unauthorized act or omission of Executive; or (ii) which becomes available to Executive on a non-confidential basis from a source other than the Company without breach of such source's confidentiality or non-disclosure obligations to the Company. Executive agrees to deliver or return to the Employer, at the Employer's request at any time or upon termination or expiration of his employment or as soon thereafter as possible, (i) all documents, computer tapes and disks, records, lists, data, drawings, prints, notes and written information (and all copies thereof) furnished by the Company or prepared by Executive during the term of his employment by the Employer and (ii) all notebooks and other data relating to research or experiments or other work conducted by Executive in the scope of such employment. Upon the date of termination of Executive's employment hereunder, Executive shall, as soon as possible but no later than two (2) days after the date of termination, surrender to the Employer all Confidential Information in Executive's possession and return to the Employer all Company property in Executive's possession or control, including but not limited to, all paper records and documents, computer disks and access cards and keys to any Company facilities.

(b) Non-Competition. During the period of Executive's employment hereunder and for a period of twelve (12) months after the date of termination of his employment, Executive shall not,

directly or indirectly, in the “Restricted Territory” (as hereinafter defined), without the prior written consent of the Employer, provide consultative services or otherwise provide services to (whether as an employee or a consultant, with or without pay) or, own, manage, operate, join, control, participate in, or be connected with (as a shareholder, partner, or otherwise), any business, individual, partner, firm, corporation, or other entity that is then a competitor of the Company (each such competitor a “Competitor of the Company”); provided, however, that the “beneficial ownership” by Executive, either individually or as a member of a “group,” as such terms are used in Rule 13d of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), of not more than five percent (5%) of the voting stock of any publicly held corporation shall not alone constitute a violation of this Agreement. For purposes of this Agreement, “Restricted Territory” shall mean: (i) the State of North Carolina, (ii) the other contiguous states of the United States of America, and (iii) any other jurisdiction in which the Company is doing or does business during Executive’s employment hereunder. Executive and the Employer acknowledge and agree that the business of the Company extends throughout the contiguous states of the United States of America and internationally.

(c) Non-Solicitation of Customers and Suppliers. During the period of Executive’s employment hereunder and for a period of twelve (12) months after the date of termination of Executive’s employment hereunder, Executive shall not, directly or indirectly, influence or attempt to influence customers or suppliers of the Company to divert any of their business to any Competitor of the Company.

(d) Non-Solicitation of Employees. Executive recognizes that he possesses and will possess Confidential Information about other employees of the Company relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of the Company. Executive recognizes that the information he possesses and will possess about these other employees is not generally known, is of substantial value to the Company in developing its business and in securing and retaining customers, and has been and will be acquired by him because of his business position with the Company. Executive agrees that, during the period of Executive’s employment hereunder and for a period of twelve (12) months thereafter, he will not, directly or indirectly, solicit, recruit, induce or encourage or attempt to solicit, recruit, induce, or encourage any employee of the Company (i) for the purpose of being employed by him or by any Competitor of the Company on whose behalf he is acting as an agent, representative or employee or (ii) to terminate his or her employment or any other relationship with the Company. Executive also agrees that Executive will not convey any Confidential Information or trade secrets about other employees of the Company to any other person.

(e) Post-Termination Covenants by Executive.

(i) Upon the termination of Executive’s employment hereunder, regardless of (A) the date, cause, or manner of the Termination of Employment, (B) whether the Termination of Employment is with or without Cause or is a result of Executive’s resignation, or (C) whether the Employer provides severance benefits to Executive under this Agreement (the “Termination of Employment”), Executive shall resign and does resign (1) as a member of the Board if serving on the Board at that time and (2) from all positions as an officer, director or manager of the Company and from any other positions with the Company, with all such resignations to be effective upon the date of the Termination of Employment.

(ii) From and after the Termination of Employment, Executive agrees not to make any statements to the Company’s employees, customers, vendors, or suppliers or to any public or media source, whether written or oral, regarding Executive’s employment hereunder or termination from the Employer’s employment, except as may be approved in writing by an executive officer of the Employer in advance. Executive further agrees not to make any statement (including to any media source, or to the Company’s suppliers, customers or employees) or take

any action that would disrupt, impair, embarrass, harm or affect adversely the Company or any of the employees, officers, directors, or customers of the Company or place the Company or such individuals in any negative light.

(iii) From and after the Termination of Employment, Executive agrees to cooperate with and provide assistance to the Company and its legal counsel in connection with any litigation (including arbitration or administrative hearings) or investigation affecting the Company, in which, in the reasonable judgment of the Company's counsel, Executive's assistance or cooperation is needed. Executive shall, when requested by the Company, provide testimony or other assistance and shall travel at the Company's request in order to fulfill this obligation. In connection with such litigation or investigation, the Company shall attempt to accommodate Executive's schedule, shall reimburse Executive (unless prohibited by law) for any actual loss of wages in connection therewith, shall provide Executive with reasonable notice in advance of the times in which Executive's cooperation or assistance is needed, and shall reimburse Executive for any reasonable expenses incurred in connection with such matters.

(f) Injunctive Relief. It is expressly agreed that the Employer will or would suffer irreparable injury, for which a remedy in monetary damages alone would be inadequate, if Executive were to violate any of the provisions of this Section 6 and that the Employer would by reason of such violation be entitled to injunctive relief in a court of appropriate jurisdiction, and Executive further consents and stipulates to the entry of such injunctive relief in such a court prohibiting Executive from so violating Section 6 of this Agreement, in addition to any and all damages or other remedies to which the Employer would be entitled at law or in equity. Nothing herein shall be construed as prohibiting the Employer from pursuing any other equitable or legal remedies for such breach or threatened breach, including the recovery of monetary damages from Executive.

(g) Executive's Acknowledgement. Executive acknowledges and agrees that (i) Executive is receiving additional compensation and benefits under this Agreement which serve as additional consideration for the covenants contained in this Agreement, (ii) the restrictive covenants in this Section 6 are reasonable in time, territory and scope, and in all other respects and (iii) should any part or provision of any covenant herein be held invalid, void or unenforceable in any court of competent jurisdiction, such invalidity, voidness, or unenforceability shall not render invalid, void or unenforceable any other part or provision of this Agreement. The restrictive covenants contained herein shall be construed as agreements independent of any other provision in this Agreement and the existence of any claim or cause of action of Executive against the Employer, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of these covenants.

(h) Protected Disclosures. Pursuant to the Defend Trade Secrets Act of 2016 (8 U.S.C. § 1833(b)), Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret of the Company that (i) is made (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. If Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the trade secret to Executive's attorney and use the trade secret information in the court proceeding, if Executive (i) files any document containing the trade secret under seal, and (ii) does not disclose the trade secret, except pursuant to court order. Nothing in this Agreement, is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by such section. Notwithstanding any provision in any agreement between Executive and the Company, Executive may disclose any confidential or non-public information (i) to report possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, the

United States Congress and any agency Inspector General, or make other disclosures that are protected under the whistleblower provisions of federal law or regulation or (ii) as required by law or order by a court; provided, however, Executive agrees to notify the Company in advance if Executive is required to provide information or testimony in connection with any action brought by a non-governmental or non-regulatory person or entity.

(i) Survival of Provisions. The obligations contained in this Section 6 shall survive the termination or expiration of Executive's employment hereunder and shall be fully enforceable thereafter.

7. No Conflict. Executive represents and warrants that Executive is not subject to any agreement, instrument, order, judgment or decree of any kind, or any other restrictive agreement of any character, which would prevent Executive from entering into this Agreement or would conflict with the performance of Executive's duties pursuant to this Agreement. Executive represents and warrants that Executive will not engage in any activity, which would conflict with the performance of Executive's duties pursuant to this Agreement.

8. Notices. Any notice, requests, demands and other communications to be given to a party in connection with this Agreement shall be in writing addressed to such party at such party's "Notice Address," which shall initially be as set forth below:

If to the Company: Unifi, Inc.
7201 West Friendly Avenue
Greensboro, North Carolina 27410
Attn: Secretary

If to Executive: Mark McNeill
Most recent address reflected on
the Company's payroll records

A party's Notice Address may be changed or supplemented from time to time by such party by notice thereof to the other party as herein provided. Any such notice shall be deemed effectively given to and received by a party on the first to occur of (a) the date on which such notice is actually delivered (whether by mail, courier, hand delivery, electronic or facsimile transmission or otherwise) to such party's Notice Address and addressed to such party, if such delivery occurs on a business day, or if such delivery occurs on a day which is not a business day, then on the next business day after the date of such delivery, or (b) the date on which such notice is actually received by such party (or, in the case of a party that is not an individual, actually received by the individual designated in the Notice Address of such party). For purposes of the preceding sentence, a "business day" is any day other than a Saturday, Sunday or U.S. federal public legal holiday.

9. Indemnification.

(a) General. Subject to the limitations set forth in this Section 9, the Employer shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, Executive if Executive was or is made or is threatened to be made a party to or is otherwise involved in any pending, threatened or completed action, suit, arbitration, alternative dispute resolution proceeding, investigation, administrative hearing, or other proceeding, whether by or in the right of the Employer, any other Company, or any other person or entity, whether civil, criminal, administrative

or investigative (a "Proceeding") by reason of the fact that Executive is or was a director, officer, employee or agent of the Employer or is or was serving at the request of the Employer as a director, officer, member, employee or agent of any other Company or other enterprise, including service with respect to employee benefit plans, against all cost, expense, liability and loss (including without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by Executive or on Executive's behalf in connection with any Proceeding and any appeal therefrom. Executive's rights under this Section 9 shall continue after Executive has ceased acting as a director, officer, member, employee or agent of a Company and shall inure to the benefit of the heirs, executors and administrators of Executive. The Employer's obligation to provide the indemnification set forth in this Section 9(a) shall be subject to Executive having acted in good faith and in a manner Executive reasonably believed to be in or not opposed to the best interests of any Company, and, with respect to any criminal action or proceeding, having had no reasonable cause to believe Executive's conduct was unlawful. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that Executive did not act in good faith and in a manner which Executive reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that Executive's conduct was unlawful.

(b) Advancement of Expenses. Subject to the limitations set forth in this Section 9, the Employer shall pay the reasonable expenses (including reasonable attorneys' fees) incurred by Executive in defending any Proceeding in advance of its final disposition; provided, however, that such advancement of expenses shall be made only upon receipt of an undertaking by Executive, in a form approved by the Employer, to repay all amounts advanced if it shall ultimately be determined that Executive is not entitled to be indemnified therefor. Executive agrees to reimburse the Employer for all expenses advanced under this Section 9 in the event and only to the extent it shall ultimately be determined by a final adjudication that Executive is not entitled to be indemnified by the Employer for such expenses.

(c) Claims for Indemnification or Advancement; Determination of Eligibility.

(i) Any claim by Executive for indemnification or advancement of expenses under this Agreement shall be made in a writing delivered to the Employer, setting forth in reasonable detail the basis for such indemnification or advancement and the amount requested, and accompanied by appropriate documentation to support the amount so requested (or, in the case of advancement of expenses to be incurred, the basis on which such amount is to be determined). A claim for advancement may include future expenses reasonably expected to be incurred, provided they are generally described in the claim, and provided that the Employer shall not be required to advance particular expenses covered by the claim until it has received appropriate substantiation that those expenses have been incurred and are appropriately included within the advances approved by the Employer pursuant to this Section 9(c).

(ii) Promptly upon its receipt of a written claim for advancement of expenses to which Executive is entitled hereunder, and within sixty (60) days after its receipt of a written claim for indemnity to which Executive is entitled hereunder, the Employer shall pay such advancement (and any future related submissions for advancement of expenses as they are incurred) or such claim for indemnity in full to or as directed by Executive. If and to the extent it is required by law that the Employer make any particular determination as to Executive's eligibility to receive such advancements or indemnity, or whether Executive has met the standards set forth in Section 9(a) hereof, the Employer shall make such determination as promptly as practicable in good faith and in accordance with such requirements of law, and in any event within sixty (60) days after its receipt of the claim from Executive. In the event that the Employer fails to make such determination as to Executive's eligibility, or makes a determination that Executive is ineligible for

indemnification or advancement of expenses hereunder, within such sixty (60)-day period, then Executive may seek such determination from a court of competent jurisdiction. In any such proceeding, the Employer shall have the burden of proving that Executive was not entitled to the requested indemnification or advancement of expenses, and any prior determination by the Employer to the contrary shall be to no effect and shall not be given any weight by the court, it being the intention of the parties that any determination by the court as to Executive's eligibility for and entitlement to indemnification or advancement of expenses hereunder shall be made de novo based upon the terms of this Agreement and the evidence presented to such court.

(d) Limitations on Claims. In addition to the limitations on indemnification set forth in Section 9(a) above, the Employer shall not be obligated pursuant to this Agreement:

(i) To indemnify or advance expenses to Executive with respect to a Proceeding initiated by Executive, except (i) for Proceedings authorized or consented to by the Board; or (ii) in the event a claim for indemnification or payment of expenses (including attorneys' fees) made under this Agreement is not paid in full within sixty (60) days after a written claim therefor has been received by the Employer, Executive may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim, including attorneys' fees. In any such action, the Employer shall have the burden of proving that Executive was not entitled to the requested indemnification or payment of expenses under applicable law or this Agreement.

(ii) To indemnify Executive for any expenses incurred by Executive with respect to any Proceeding instituted by Executive to enforce or interpret this Agreement, unless Executive is successful in establishing Executive's right to indemnification in such Proceeding, in whole or in part; provided, however, that nothing in this Section 9(d)(ii) is intended to limit the Employer's obligation with respect to the advancement of expenses to Executive in connection with any Proceeding instituted by Executive to enforce or interpret this Agreement, as provided in Section 9(c) above.

(iii) To indemnify Executive in connection with proceedings or claims involving the enforcement of the provisions of this Agreement (other than as otherwise specifically provided for in this Section 9) or any other employment, severance or compensation plan or agreement that Executive may be a party to, or beneficiary of, with the Employer or any other Company.

(iv) To indemnify Executive on account of any proceeding with respect to which final judgment is rendered against Executive for payment or an accounting of profits arising from the purchase or sale by Executive of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, any similar successor statute, or similar provisions of state statutory law or common law.

(e) Non-Exclusivity of Rights. The right conferred on Executive by this Section 9 shall not be exclusive of any other rights which Executive may have or hereafter acquire under any statute, provision of the Employer's articles of incorporation or bylaws, agreement, vote of shareholders or disinterested directors or otherwise, or under any insurance maintained by the Employer; but such rights in the aggregate shall not entitle Executive to duplicative multiple recoveries. No amendment or alteration of the Employer's articles of incorporation or bylaws or any other agreement shall adversely affect the rights provided to Executive under this Section 9.

(f) Savings Clause. If any provision or provisions of this Agreement shall be invalidated on any ground by any court of competent jurisdiction, then the Employer shall nevertheless indemnify Executive as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Employer, to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated and to the full extent permitted by applicable law.

10. Dispute Resolution.

(a) Any dispute between Executive and the Employer arising out of this Agreement or the performance or nonperformance hereof (except with respect to Section 9), shall, upon the demand of either Executive or the Employer, be settled by binding arbitration in accordance with the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association as in effect at the time the arbitration is commenced and the provisions of this subsection:

(i) The arbitration shall be conducted in Greensboro, North Carolina by a panel of three impartial arbitrators selected in accordance with such rules, unless the parties shall hereafter mutually agree in writing to have the arbitration conducted by a single arbitrator.

(ii) In conducting the arbitration and rendering their award, the arbitrators shall give effect to the terms of this Agreement, including the choice of applicable law, shall give effect to any other agreement of the parties relating to the conduct of the arbitration, and shall give effect to applicable statutes of limitations.

(iii) The costs of the arbitration, including the fees and expenses of the arbitrators and of the American Arbitration Association, shall be allocated to such parties as, and in such proportions as, the arbitrators shall determine to be just and equitable, which determination shall be set forth in the award.

(iv) Judgment upon the award of the arbitrators may be entered by any court of competent jurisdiction.

(b) Nothing in this Section 10 shall preclude any party from applying to a court of competent jurisdiction for, and obtaining if warranted, preliminary or ancillary relief pending the conduct of such arbitration, or an order to compel the arbitration provided for herein.

(c) Any claim arising out of Section 9, including a claim by Executive for indemnification or advancement of expenses thereunder, shall be brought before the state courts of the State of North Carolina pursuant to Section 12.

11. Assignment; Successors. This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided that, this Agreement shall be binding upon and, subject to the provisions hereof, inure to the benefit of any successor of the Employer and such successor shall be deemed substituted for the Employer under the terms of this Agreement; but any such substitution shall not relieve the Employer of any of its obligations under this Agreement. As used in this Agreement, the term "successor" shall include any person, firm, corporation, or like business entity which at any time, whether by merger, purchase or otherwise, acquires all or a controlling interest in the assets or business of the Employer.

12. Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by, and construed and enforced in accordance with, the substantive laws of the State of North Carolina, without giving effect to its principles of conflict of laws. Executive and the Employer each hereby irrevocably consent that both parties are subject to the jurisdiction of the state courts of the State of North Carolina for all purposes in connection with any action or proceeding that arises out of or relates to this Agreement, and further agree that the sole and exclusive venue for any such dispute shall be the General Court of Justice, Superior Court Division, in Guilford County, North Carolina.

13. Withholding. The Employer shall make such deductions and withhold such amounts from each payment made to Executive hereunder as may be required from time to time by law, governmental regulation or order.

14. Headings. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

15. Waiver; Modification. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by each party hereto.

16. Severability. The parties have entered into this Agreement for the purposes herein expressed, with the intention that this Agreement be given full effect to carry out such purposes. Therefore, consistent with the effectuation of the purposes hereof, the invalidity or unenforceability of any provision hereof or part thereof shall not affect the validity or enforceability of any other provision hereof or any other part of such provision.

17. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes any prior agreements between them with respect to the subject matter hereof. Without limiting the generality of the foregoing, the obligations under this Agreement with respect to any termination of employment of Executive, for whatever reason, supersede any severance or related obligations of the Company in any policy, plan or practice of the Company or any agreement between Executive and the Company.

18. Counterparts. This Agreement may be executed by the parties hereto in multiple counterparts and shall be effective as of the Effective Date when each party shall have executed and delivered a counterpart hereof, whether or not the same counterpart is executed and delivered by each party. When so executed and delivered, each such counterpart shall be deemed an original and all such counterparts shall be deemed one and the same document. Transmission of images of signed signature pages by facsimile, e-mail or other electronic means shall have the same effect as the delivery in person of manually signed documents.

19. Compliance with Section 409A. This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), to the extent applicable. Notwithstanding any provision herein to the contrary, this Agreement shall be interpreted, operated and administered consistent with this intent. Each separate installment under this Agreement shall be treated as a separate payment for purposes of determining whether such payment is subject to or exempt from compliance with the requirements of Section 409A. In addition, in the event that Executive is a "specified employee" within the meaning of Section 409A (as determined in accordance with the methodology established by the Employer as in effect on the date of termination of Executive's employment hereunder), any payment or benefits hereunder that are nonqualified deferred compensation subject to the

requirements of Section 409A shall be provided to Executive no earlier than six (6) months after the date of Executive's "separation from service" within the meaning of Section 409A.

IN WITNESS WHEREOF, the Employer has caused this Agreement to be executed by its duly authorized officer, and Executive has hereunto signed this Agreement, as of the Effective Date.

“Employer”:

Unifi, Inc.

By: /s/ KEVIN D. HALL

Name: Kevin D. Hall

Title: Chief Executive Officer

“Executive”:

/s/ MARK MCNEILL

Name: Mark McNeill

CERTIFICATION

I, Kevin D. Hall, 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: January 31, 2018

/s/ KEVIN D. HALL

Kevin D. Hall
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Jeffrey C. Ackerman, 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: January 31, 2018

/s/ JEFFREY C. ACKERMAN

Jeffrey C. Ackerman
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

**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 December 24, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin D. Hall, Chairman of the Board and Chief Executive 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: January 31, 2018

/s/ KEVIN D. HALL

Kevin D. Hall
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

**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 December 24, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey C. Ackerman, Executive Vice President & 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: January 31, 2018

/s/ JEFFREY C. ACKERMAN

Jeffrey C. Ackerman
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

