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

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 28, 2021**

**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**<br>**(State or other jurisdiction of incorporation or organization)** | **11-2165495**<br>**(I.R.S. Employer Identification No.)** |
| **7201 West Friendly Avenue**<br>**Greensboro, North Carolina**<br>**(Address of principal executive offices)** | **27410**<br>**(Zip Code)** |

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

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

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

As of April 30, 2021, there were 18,490,338 shares of the registrant's common stock, par value $0.10 per share, outstanding.

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that relate to our plans, objectives, estimates and goals. Statements expressing expectations regarding our future, or projections or estimates relating to products, sales, revenues, expenditures, costs, strategies, initiatives or earnings, are typical of such statements and are made under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management’s beliefs, assumptions and expectations about our future performance, considering the information currently available to management. The words “believe,” “may,” “could,” “will,” “should,” “would,” “anticipate,” “plan,” “estimate,” “project,” “expect,” “intend,” “seek,” “strive” and words of similar import, or the negative of such words, identify or signal the presence of forward-looking statements. These statements are not statements of historical fact; 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 or brand partner;
- natural disasters, industrial accidents, power or water shortages, extreme weather conditions and other disruptions at one of our facilities;
- the disruption of operations, global demand, or financial performance as a result of catastrophic or extraordinary events, including epidemics or pandemics such as the recent strain of coronavirus (“COVID-19”);
- the success of the Company’s strategic business initiatives;
- the volatility of financial and credit markets;
- the ability to service indebtedness and fund capital expenditures and strategic business initiatives;
- the availability of and access to credit on reasonable terms;
- changes in foreign currency exchange, interest and inflation rates;
- fluctuations in production costs;
- the ability to protect intellectual property;
- the strength and reputation of our brands;
- employee relations;
- the ability to attract, retain and motivate key employees;
- the impact of environmental, health and safety regulations;
- the impact of tax laws, the judicial or administrative interpretations of tax laws and/or changes in such laws or interpretations; 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 28, 2020 or in the Company’s other periodic reports and information filed with the Securities and Exchange Commission (“SEC”).

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 laws.

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

**UNIFI, INC.**

**QUARTERLY REPORT ON FORM 10-Q**
**FOR THE THREE MONTHS AND NINE MONTHS ENDED MARCH 28, 2021**

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PART I—FINANCIAL INFORMATION

**Item 1. Financial Statements**

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

| | March 28, 2021 | June 28, 2020 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 75,598 | $ 75,267 |
| Receivables, net | 96,988 | 53,726 |
| Inventories | 122,004 | 109,704 |
| Income taxes receivable | 9,594 | 4,033 |
| Other current assets | 8,475 | 11,763 |
| Total current assets | 312,659 | 254,493 |
| Property, plant and equipment, net | 196,762 | 204,246 |
| Operating lease assets | 9,009 | 8,940 |
| Deferred income taxes | 2,344 | 2,352 |
| Other non-current assets | 7,598 | 4,131 |
| Total assets | $ 528,372 | $ 474,162 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Accounts payable | $ 47,645 | $ 25,610 |
| Accrued expenses | 27,145 | 13,689 |
| Income taxes payable | 10,245 | 349 |
| Current operating lease liabilities | 1,849 | 1,783 |
| Current portion of long-term debt | 13,726 | 13,563 |
| Total current liabilities | 100,610 | 54,994 |
| Long-term debt | 75,134 | 84,607 |
| Non-current operating lease liabilities | 7,264 | 7,251 |
| Other long-term liabilities | 8,811 | 8,606 |
| Deferred income taxes | 956 | 2,549 |
| Total liabilities | 192,775 | 158,007 |
| | | |
| Commitments and contingencies | | |
| | | |
| Common stock, $0.10 par value (500,000,000 shares authorized; 18,490,338 and 18,446,436 shares issued and outstanding as of March 28, 2021 and June 28, 2020, respectively) | 1,849 | 1,845 |
| Capital in excess of par value | 64,686 | 62,392 |
| Retained earnings | 331,378 | 315,724 |
| Accumulated other comprehensive loss | (62,316) | (63,806) |
| Total shareholders' equity | 335,597 | 316,155 |
| Total liabilities and shareholders' equity | $ 528,372 | $ 474,162 |

See accompanying notes to condensed consolidated financial statements.

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Net sales | $ 178,866 | $ 170,994 | $ 483,147 | $ 520,454 |
| Cost of sales | 153,271 | 155,611 | 417,057 | 471,963 |
| Gross profit | 25,595 | 15,383 | 66,090 | 48,491 |
| Selling, general and administrative expenses | 14,581 | 11,720 | 38,570 | 35,208 |
| (Benefit) provision for bad debts | (184) | 580 | (1,330) | 331 |
| Other operating expense (income), net | 2,582 | (62) | 4,236 | 900 |
| Operating income | 8,616 | 3,145 | 24,614 | 12,052 |
| Interest income | (159) | (173) | (471) | (595) |
| Interest expense | 885 | 1,231 | 2,589 | 3,589 |
| Equity in earnings of unconsolidated affiliates | (528) | (3,526) | (751) | (1,904) |
| Impairment of investment in unconsolidated affiliate | — | 45,194 | — | 45,194 |
| Income (loss) before income taxes | 8,418 | (39,581) | 23,247 | (34,232) |
| Provision for income taxes | 3,660 | 1,530 | 7,593 | 2,758 |
| Net income (loss) | $ 4,758 | $ (41,111) | $ 15,654 | $ (36,990) |
| | | | | |
| Net income (loss) per common share: | | | | |
| Basic | $ 0.26 | $ (2.23) | $ 0.85 | $ (2.00) |
| Diluted | $ 0.25 | $ (2.23) | $ 0.83 | $ (2.00) |

See accompanying notes to condensed consolidated financial statements.

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Net income (loss) | $ 4,758 | $ (41,111) | $ 15,654 | $ (36,990) |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | (4,996) | (17,270) | 734 | (20,350) |
| Changes in interest rate swaps, net of tax of $77, $434, $233 and $434, respectively | 247 | (1,449) | 756 | (1,488) |
| Other comprehensive (loss) income, net | (4,749) | (18,719) | 1,490 | (21,838) |
| Comprehensive income (loss) | $ 9 | $ (59,830) | $ 17,144 | $ (58,828) |

See accompanying notes to condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**(Unaudited)**
**(In thousands)**

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 27, 2020 | 18,481 | $ 1,848 | $ 63,972 | $ 326,620 | $ (57,567) | $ 334,873 |
| Options exercised | — | — | — | — | — | — |
| Conversion of restricted stock units | 7 | — | — | — | — | — |
| Stock-based compensation | 4 | 1 | 761 | — | — | 762 |
| Common stock withheld in satisfaction of tax withholding obligations under net share settle transactions | (2) | — | (47) | — | — | (47) |
| Other comprehensive loss, net of tax | — | — | — | — | (4,749) | (4,749) |
| Net income | — | — | — | 4,758 | — | 4,758 |
| Balance at March 28, 2021 | 18,490 | $ 1,849 | $ 64,686 | $ 331,378 | $ (62,316) | $ 335,597 |

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at June 28, 2020 | 18,446 | $ 1,845 | $ 62,392 | $ 315,724 | $ (63,806) | $ 316,155 |
| Options exercised | 1 | — | — | — | — | — |
| Conversion of restricted stock units | 45 | 4 | (4) | — | — | — |
| Stock-based compensation | 4 | 1 | 2,409 | — | — | 2,410 |
| Common stock withheld in satisfaction of tax withholding obligations under net share settle transactions | (6) | (1) | (111) | — | — | (112) |
| Other comprehensive income, net of tax | — | — | — | — | 1,490 | 1,490 |
| Net income | — | — | — | 15,654 | — | 15,654 |
| Balance at March 28, 2021 | 18,490 | $ 1,849 | $ 64,686 | $ 331,378 | $ (62,316) | $ 335,597 |

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 29, 2019 | 18,505 | $ 1,851 | $ 61,187 | $ 378,789 | $ (46,348) | $ 395,479 |
| Options exercised | — | — | — | — | — | — |
| Conversion of restricted stock units | 42 | 4 | (4) | — | — | — |
| Stock-based compensation | — | — | 596 | — | — | 596 |
| Common stock repurchased and retired under publicly announced program | (84) | (8) | (279) | (1,707) | — | (1,994) |
| Common stock withheld in satisfaction of tax withholding obligations under net share settle transactions | (17) | (2) | (420) | — | — | (422) |
| Other comprehensive loss, net of tax | — | — | — | — | (18,719) | (18,719) |
| Net loss | — | — | — | (41,111) | — | (41,111) |
| Balance at March 29, 2020 | 18,446 | $ 1,845 | $ 61,080 | $ 335,971 | $ (65,067) | $ 333,829 |

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at June 30, 2019 | 18,462 | $ 1,846 | $ 59,560 | $ 374,668 | $ (43,229) | $ 392,845 |
| Options exercised | 10 | 1 | 28 | — | — | 29 |
| Conversion of restricted stock units | 76 | 8 | (8) | — | — | — |
| Stock-based compensation | 4 | 1 | 2,298 | — | — | 2,299 |
| Common stock repurchased and retired under publicly announced program | (84) | (8) | (279) | (1,707) | — | (1,994) |
| Common stock withheld in satisfaction of tax withholding obligations under net share settle transactions | (22) | (3) | (519) | — | — | (522) |
| Other comprehensive loss, net of tax | — | — | — | — | (21,838) | (21,838) |
| Net loss | — | — | — | (36,990) | — | (36,990) |
| Balance at March 29, 2020 | 18,446 | $ 1,845 | $ 61,080 | $ 335,971 | $ (65,067) | $ 333,829 |

See accompanying notes to condensed consolidated financial statements.

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

| | For the Nine Months Ended | |
|---|---|---|
| | March 28, 2021 | March 29, 2020 |
| Cash and cash equivalents at beginning of period | $ 75,267 | $ 22,228 |
| *Operating activities:* | | |
| Net income (loss) | 15,654 | (36,990) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Equity in earnings of unconsolidated affiliates | (751) | (1,904) |
| Distributions received from unconsolidated affiliate | — | 10,437 |
| Depreciation and amortization expense | 19,007 | 17,685 |
| Impairment of investment in unconsolidated affiliate | — | 45,194 |
| Non-cash compensation expense | 2,656 | 2,510 |
| Deferred income taxes | (1,826) | (10,029) |
| Loss on disposal of assets | 2,773 | 172 |
| Other, net | (356) | (343) |
| Changes in assets and liabilities: | | |
| Receivables, net | (43,034) | (2,295) |
| Inventories | (11,825) | 2,126 |
| Other current assets | 3,482 | (3,020) |
| Income taxes | 4,277 | 8,849 |
| Accounts payable and accrued expenses | 33,033 | (488) |
| Other, net | 2,620 | 201 |
| Net cash provided by operating activities | 25,710 | 32,105 |
| *Investing activities:* | | |
| Capital expenditures | (12,071) | (14,971) |
| Purchases of intangible assets | (3,605) | — |
| Other, net | 153 | 35 |
| Net cash used by investing activities | (15,523) | (14,936) |
| *Financing activities:* | | |
| Proceeds from ABL Revolver | — | 79,000 |
| Payments on ABL Revolver | — | (67,500) |
| Payments on ABL Term Loan | (7,500) | (7,500) |
| Payments on finance lease obligations | (2,727) | (4,606) |
| Common stock repurchased and retired under publicly announced program | — | (1,994) |
| Other, net | (111) | (492) |
| Net cash used by financing activities | (10,338) | (3,092) |
| Effect of exchange rate changes on cash and cash equivalents | 482 | (2,912) |
| Net increase in cash and cash equivalents | 331 | 11,165 |
| Cash and cash equivalents at end of period | $ 75,598 | $ 33,393 |

See accompanying notes to condensed consolidated financial statements.

## 1. Background

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

UNIFI maintains one of the textile industry’s most comprehensive product offerings that includes a range of specialized, value-added and commodity solutions, with principal geographic markets in the Americas, Asia and Europe. UNIFI has direct manufacturing operations in four countries and participates in joint ventures with operations in Israel and the United States (“U.S.”).

## 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 U.S. (“GAAP”) for interim financial information. As contemplated by the instructions of 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 28, 2020 (the “2020 Form 10-K”).

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

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

The fiscal quarter for each of Unifi, Inc., its primary domestic operating subsidiaries and its subsidiary in El Salvador ended on March 28, 2021. Unifi, Inc.’s remaining material operating subsidiaries’ fiscal quarter ended on March 31, 2021. 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 periods ended March 28, 2021 and March 29, 2020 both consisted of 13 weeks. The nine-month periods ended March 28, 2021 and March 29, 2020 both consisted of 39 weeks.

## 3. Recent Accounting Pronouncements

*Recently Adopted*

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments - Credit Losses*, with an effective date consistent with UNIFI’s fiscal 2021. The new guidance requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected and eliminates the probable initial recognition threshold to instead reflect an entity’s current estimate of all expected credit losses. UNIFI adopted the ASU in fiscal 2021 using the modified retrospective approach and the adoption did not have a material impact to UNIFI’s financial position or results of operations.

Based on UNIFI’s review of ASUs issued since the filing of the 2020 Form 10-K, there have been no other newly issued or newly applicable accounting pronouncements that have had, or are expected to have, a material impact on UNIFI’s consolidated financial statements.

## 4. Revenue Recognition

The following tables present net sales grouped by (i) classification of sales type and (ii) REPREVE® Fiber sales:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Third-party manufacturer | $ 176,100 | $ 169,033 | $ 475,087 | $ 514,590 |
| Service | 2,766 | 1,961 | 8,060 | 5,864 |
| Net sales | $ 178,866 | $ 170,994 | $ 483,147 | $ 520,454 |

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| REPREVE® Fiber | $ 59,171 | $ 49,091 | $ 169,689 | $ 162,469 |
| All other products and services | 119,695 | 121,903 | 313,458 | 357,985 |
| Net sales | $ 178,866 | $ 170,994 | $ 483,147 | $ 520,454 |

*Third-Party Manufacturer*

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

*Service Revenue*

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

*REPREVE® Fiber*

REPREVE® Fiber represents our collection of fiber products on our recycled platform, with or without added technologies.

*Variable Consideration*

*Volume-based incentives*

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

*Product claims*

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

For all variable consideration, where appropriate, UNIFI estimates the amount using the expected value method, which takes into consideration historical experience, current contractual requirements, specific known market events and forecasted customer buying and payment patterns. Overall, these reserves reflect UNIFI's best estimates of the amount of consideration to which the customer is entitled based on the terms of the contracts. For fiscal 2021, 2020 and 2019, variable consideration has been immaterial to UNIFI's financial statements.

## 5. Receivables, Net

Receivables, net consists of the following:

| | March 28, 2021 | June 28, 2020 |
|---|---|---|
| Customer receivables | $ 83,436 | $ 53,307 |
| Allowance for uncollectible accounts | (2,433) | (3,796) |
| Reserves for quality claims | (708) | (928) |
| Net customer receivables | 80,295 | 48,583 |
| Other receivables | 16,693 | 5,143 |
| Total receivables, net | $ 96,988 | $ 53,726 |

Other receivables includes $14,043 of banker's acceptance notes ("BANs") as of March 28, 2021 in connection with the settlement of certain customer receivables generated from trade activity in the Asia Segment. The BANs are redeemable upon maturity from the drawing financial institutions, or earlier at a discount. BANs of $1,596 previously reflected in customer receivables as of June 28, 2020 have been reclassified to other receivables to conform to the current presentation.

## 6. Inventories

Inventories consists of the following:

| | March 28, 2021 | June 28, 2020 |
|---|---|---|
| Raw materials | $ 44,392 | $ 42,758 |
| Supplies | 9,677 | 9,294 |
| Work in process | 7,875 | 6,267 |
| Finished goods | 62,690 | 55,609 |
| Gross inventories | 124,634 | 113,928 |
| Net realizable value adjustment | (2,630) | (4,224) |
| Total inventories | $ 122,004 | $ 109,704 |

## 7. Other Current Assets

Other current assets consists of the following:

| | March 28, 2021 | June 28, 2020 |
|---|---|---|
| Vendor deposits | $ 3,326 | $ 2,349 |
| Value-added taxes receivable | 2,132 | 2,604 |
| Contract assets | 277 | 4,953 |
| Prepaid expenses and other | 2,740 | 1,857 |
| Total other current assets | $ 8,475 | $ 11,763 |

## 8. Property, Plant and Equipment, Net

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

| | March 28, 2021 | June 28, 2020 |
|---|---|---|
| Land | $ 3,146 | $ 3,154 |
| Land improvements | 16,371 | 16,344 |
| Buildings and improvements | 158,571 | 158,025 |
| Assets under finance leases | 22,000 | 29,857 |
| Machinery and equipment | 605,668 | 602,867 |
| Computers, software and office equipment | 23,250 | 22,677 |
| Transportation equipment | 10,403 | 7,806 |
| Construction in progress | 11,399 | 7,582 |
| Gross PP&E | 850,808 | 848,312 |
| Less: accumulated depreciation | (648,584) | (636,221) |
| Less: accumulated amortization – finance leases | (5,462) | (7,845) |
| Total PP&E, net | $ 196,762 | $ 204,246 |

## 9. Accrued Expenses

Accrued expenses consists of the following:

| | March 28, 2021 | June 28, 2020 |
|---|---|---|
| Incentive compensation | $ 11,557 | $ 777 |
| Payroll and fringe benefits | 7,247 | 7,259 |
| Deferred revenue | 2,976 | 1,279 |
| Supplemental post-employment plan | 1,085 | 5 |
| Severance | 446 | 1,083 |
| Other | 3,834 | 3,286 |
| Total accrued expenses | $ 27,145 | $ 13,689 |

## 10. Long-Term Debt

*Debt Obligations*

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

| | Scheduled Maturity Date | Weighted Average Interest Rate as of March 28, 2021 | Principal Amounts as of March 28, 2021 | Principal Amounts as of June 28, 2020 |
|---|---|---|---|---|
| ABL Revolver | December 2023 | 0.0% | $ — | $ — |
| ABL Term Loan | December 2023 | 3.3% (1) | 80,000 | 87,500 |
| Finance lease obligations | (2) | 3.6% | 9,394 | 11,381 |
| Total debt | | | 89,394 | 98,881 |
| Current ABL Term Loan | | | (10,000) | (10,000) |
| Current portion of finance lease obligations | | | (3,726) | (3,563) |
| Unamortized debt issuance costs | | | (534) | (711) |
| Total long-term debt | | | $ 75,134 | $ 84,607 |

(1) Includes the effects of interest rate swaps.
(2) Scheduled maturity dates for finance lease obligations range from May 2022 to November 2027.

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

ABL Facility borrowings bear interest at LIBOR plus an applicable margin of 1.25% to 1.75%, or the Base Rate (as defined in the Credit Agreement) plus an applicable margin of 0.25% to 0.75%, with interest currently being paid on a monthly basis. As of March 28, 2021 and June 28, 2020, ABL Facility borrowings carried interest at LIBOR plus 1.50%.

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

*Scheduled Debt Maturities*

The following table presents the scheduled maturities of UNIFI's outstanding debt obligations for the remainder of fiscal 2021, the following four fiscal years and thereafter:

| | Fiscal 2021 | Fiscal 2022 | Fiscal 2023 | Fiscal 2024 | Fiscal 2025 | Thereafter |
|---|---|---|---|---|---|---|
| ABL Revolver | $ — | $ — | $ — | $ — | $ — | $ — |
| ABL Term Loan | 2,500 | 10,000 | 10,000 | 57,500 | — | — |
| Finance lease obligations | 919 | 3,545 | 1,257 | 1,301 | 1,195 | 1,177 |
| Total | $ 3,419 | $ 13,545 | $ 11,257 | $ 58,801 | $ 1,195 | $ 1,177 |

## 11. Other Long-Term Liabilities

Other long-term liabilities consists of the following:

| | March 28, 2021 | June 28, 2020 |
|---|---|---|
| Uncertain tax positions | $ 2,906 | $ 1,112 |
| Supplemental post-employment plan | 2,014 | 3,019 |
| Interest rate swaps | 1,562 | 2,551 |
| Other | 2,329 | 1,924 |
| Total other long-term liabilities | $ 8,811 | $ 8,606 |

## 12. Income Taxes

The provision for income taxes and effective tax rate were as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Provision for income taxes | $ 3,660 | $ 1,530 | $ 7,593 | $ 2,758 |
| Effective tax rate | 43.5% | (3.9)% | 32.7% | (8.1)% |

*U.S. Tax Law Change*

On July 20, 2020, the U.S. Treasury issued and enacted final regulations related to global intangible low-tax income ("GILTI") that allow certain U.S. taxpayers to elect to exclude foreign income that is subject to a high effective tax rate from their GILTI inclusions. The GILTI high-tax exclusion is an annual election and is retroactively available for tax years beginning after December 31, 2017. The three-month and nine-month periods ended March 28, 2021 include discrete tax expense (benefit) of $273 and $(4,874), respectively, related to the retroactive election.

*Valuation Allowance*

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

As a result of the newly enacted GILTI regulations, and their impact on prior tax periods, UNIFI does not expect to realize the full benefit of its U.S. federal net operating loss and research credit carryforwards. The three-month and nine-month periods ended March 28, 2021 include tax (benefit) expense of $(133) and $1,508, respectively, related to the change in valuation allowance on these deferred tax assets.

*Income Tax Expense*

UNIFI's provision for income taxes for the nine months ended March 28, 2021 and March 29, 2020 was calculated by applying an estimate of the annual effective tax rate for the full fiscal year to year-to-date income from ordinary activity. Tax effects of significant and unusual, or infrequently occurring, items are excluded from the estimated annual effective tax rate calculation and recognized discretely in the interim period in which they occur.

The effective tax rate for the three months ended March 28, 2021 was higher than the U.S. federal statutory rate primarily due to current U.S. tax on GILTI, and earnings taxed at higher rates in foreign jurisdictions. These rate impacts were partially offset by additional research credits claimed during the period. The effective tax rate for the nine months ended March 28, 2021 was higher than the U.S. federal statutory rate primarily due to current U.S. tax on GILTI, the change in valuation allowance for deferred tax assets, and earnings taxed at higher rates in foreign jurisdictions. These rate impacts were partially offset by the retroactive GILTI high-tax exclusion for prior periods, and additional R&D credits claimed during the current period.

The effective tax rate for the three months and nine months ended March 29, 2020 was lower than the U.S. federal statutory rate primarily due to an increase in the valuation allowance for UNIFI's investment in PAL as a result of the impairment charge, for which UNIFI does not expect to realize a future tax benefit.

*Unrecognized Tax Benefits*

The amount of unrecognized tax benefits for uncertain tax positions as of March 28, 2021 and June 28, 2020 was $2,899 and $1,218, respectively. Unrecognized benefits would generate a favorable impact of $2,063 on UNIFI's effective tax rate when recognized. UNIFI does not expect material changes in unrecognized tax benefits within the next 12 months.

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

### 13. Shareholders' Equity

On October 31, 2018, UNIFI announced that its Board of Directors (the "Board") approved a new share repurchase program (the "2018 SRP") under which UNIFI is authorized to acquire up to $50,000 of its common stock. Under the 2018 SRP, purchases may be made from time to time in the open market at prevailing market prices, through private transactions or block trades. The timing and amount of repurchases will depend on market conditions, share price, applicable legal requirements and other factors. The share repurchase authorization is discretionary and has no expiration date. 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. UNIFI may discontinue repurchases at any time that management determines additional purchases are not beneficial or advisable.

The following table summarizes UNIFI's repurchases and retirements of its common stock under the 2018 SRP for the fiscal periods noted:

| | Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs | Average Price Paid per Share | Approximate Dollar Value that May Yet Be Repurchased Under Publicly Announced Plans or Programs |
|---|---|---|---|
| Fiscal 2019 | — | $ — | |
| Fiscal 2020 | 84 | $ 23.72 | |
| Fiscal 2021 (through March 28, 2021) | — | $ — | |
| Total | 84 | $ 23.72 | $ 48,008 |

Repurchased shares are retired and have the status of authorized and unissued shares. The cost of the repurchased shares is recorded as a reduction to common stock to the extent of the par value of the shares acquired and the remainder is allocated between capital in excess of par value and retained earnings, on a pro rata basis.

## 14. Stock-Based Compensation

On October 24, 2018, the Unifi, Inc. Amended and Restated 2013 Incentive Compensation Plan (the "2018 Plan") became effective, upon approval by shareholders at UNIFI's annual meeting of shareholders held on October 31, 2018. The 2018 Plan set the number of shares available for future issuance pursuant to awards granted under the 2018 Plan to 1,250 and updated certain provisions for changes to Section 162(m) of the Internal Revenue Code of 1986, as amended.

On October 29, 2020, UNIFI's shareholders approved the Unifi, Inc. Second Amended and Restated 2013 Incentive Compensation Plan (the "2020 Plan"). The 2020 Plan set the number of shares available for future issuance pursuant to awards granted under the 2020 Plan to 850. No additional awards can be granted under the 2018 Plan or other prior plans; however, awards outstanding under a respective prior plan remain subject to that plan's provisions.

The following table provides information as of March 28, 2021 with respect to the number of securities remaining available for future issuance under the 2020 Plan:

| | |
|---|---|
| Authorized under the 2020 Plan | 850 |
| Plus: Awards expired, forfeited or otherwise terminated unexercised | — |
| Less: Awards granted to employees | (75) |
| Less: Awards granted to non-employee directors | (4) |
| Available for issuance under the 2020 Plan | 771 |

Stock-based compensation units granted or issued from the 2018 Plan and/or 2020 Plan were as follows:

| | For the Nine Months Ended | |
|---|---|---|
| | March 28, 2021 | March 29, 2020 |
| Stock options | 155 | 83 |
| Restricted stock units | 110 | 77 |
| Vested share units | — | 24 |
| Common stock | 4 | 4 |

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

UNIFI uses 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 currently maintains three interest rate swaps that fix LIBOR at approximately 1.9% on $75,000 of variable-rate debt. UNIFI does not enter into derivative contracts for speculative purposes.

The following table presents details regarding UNIFI's hedging activities:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Interest expense | $ 885 | $ 1,231 | $ 2,589 | $ 3,589 |
| (Increase) decrease in fair value of interest rate swaps | (324) | 1,883 | (989) | 1,922 |
| Impact of interest rate swaps to increase (decrease) interest expense | 339 | 41 | 1,003 | (7) |

For the nine months ended March 28, 2021 and March 29, 2020, 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 values due to their short-term nature.

## 16. Accumulated Other Comprehensive Loss

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

| | Foreign Currency Translation Adjustments | Changes in Interest Rate Swaps | Accumulated Other Comprehensive Loss |
|---|---|---|---|
| Balance at June 28, 2020 | $ (61,848) | $ (1,958) | $ (63,806) |
| Other comprehensive income | 734 | 756 | 1,490 |
| Balance at March 28, 2021 | $ (61,114) | $ (1,202) | $ (62,316) |

A summary of the after-tax effects of the components of other comprehensive income (loss), net for the three-month and nine-month periods ended March 28, 2021 and March 29, 2020 is included in the accompanying condensed consolidated statements of comprehensive income (loss).

### 17. Earnings Per Share

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Net income (loss) | $ 4,758 | $ (41,111) | $ 15,654 | $ (36,990) |
| Basic weighted average shares | 18,485 | 18,475 | 18,465 | 18,485 |
| Net potential common share equivalents | 482 | — | 331 | — |
| Diluted weighted average shares | 18,967 | 18,475 | 18,796 | 18,485 |
| Excluded from the calculation of common share equivalents: | | | | |
| Anti-dilutive common share equivalents | 287 | 403 | 557 | 371 |
| Excluded from the calculation of diluted shares: | | | | |
| Unvested stock options that vest upon achievement of certain market conditions | 333 | — | 333 | — |

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

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

As of March 28, 2021, UNIFI maintained investments in two entities classified as unconsolidated affiliates: U.N.F. Industries, Ltd. ("UNF"); and UNF America LLC ("UNFA") (collectively known as "UNFs"). UNIFI's combined investment in UNFs was $2,847, reflected within other non-current assets in the accompanying condensed consolidated balance sheets.

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

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

*UNF America LLC*

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

In conjunction with the formation of UNFA, UNIFI entered into a supply agreement with UNF and UNFA whereby UNIFI agreed to purchase all of its first quality nylon POY requirements for texturing (subject to certain exceptions) from either UNF or UNFA. The supply agreement has no stated minimum purchase quantities and pricing is negotiated every six months, based on market rates. As of March 28, 2021, UNIFI's open purchase orders related to this supply agreement were $10,111.

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

| | For the Nine Months Ended | |
|---|---|---|
| | March 28, 2021 | March 29, 2020 |
| UNFA | $ 13,677 | $ 13,219 |
| UNF | 548 | 1,343 |
| Total | $ 14,225 | $ 14,562 |

As of March 28, 2021 and June 28, 2020, UNIFI had combined accounts payable due to UNF and UNFA of $3,294 and $1,166, respectively.

UNIFI has determined that UNF and UNFA are variable interest entities and that UNIFI is the primary beneficiary of these entities, based on the terms of the supply agreement discussed above. As a result, these entities should be consolidated with UNIFI's financial results. As (i) UNIFI purchases substantially all of the output from the two entities, (ii) the two entities' balance sheets constitute 3% or less of UNIFI's current assets, total assets and total liabilities, and (iii) 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.

*Parkdale America, LLC*

Parkdale America, LLC ("PAL") is a limited liability company treated as a partnership for income tax reporting purposes and in which UNIFI held a 34% ownership interest (the "PAL Investment") until UNIFI sold the investment on April 29, 2020. UNIFI accounted for the PAL Investment using the equity method of accounting and, because PAL was deemed a significant subsidiary in certain prior fiscal years, comparative prior year data is presented separately below.

Condensed balance sheet and income statement information for UNIFI's unconsolidated affiliates (including reciprocal balances) are presented in the tables below.

| | As of March 28, 2021 | | | As of June 28, 2020 | | |
|---|---|---|---|---|---|---|
| | PAL | UNFs | Total | PAL | UNFs | Total |
| Current assets | $ — | $ 8,473 | $ 8,473 | $ — | $ 5,190 | $ 5,190 |
| Non-current assets | — | 693 | 693 | — | 561 | 561 |
| Current liabilities | — | 3,472 | 3,472 | — | 1,415 | 1,415 |
| Non-current liabilities | — | — | — | — | — | — |
| Shareholders' equity and capital accounts | — | 5,694 | 5,694 | — | 4,336 | 4,336 |
| UNIFI's portion of undistributed earnings | — | 2,486 | 2,486 | — | 1,424 | 1,424 |

| | For the Three Months Ended March 28, 2021 | | | For the Three Months Ended March 29, 2020 | | |
|---|---|---|---|---|---|---|
| | PAL | UNFs | Total | PAL | UNFs | Total |
| Net sales | $ — | $ 5,983 | $ 5,983 | $ 170,854 | $ 4,076 | $ 174,930 |
| Gross profit | — | 1,047 | 1,047 | 12,182 | 392 | 12,574 |
| Income from operations | — | 629 | 629 | 7,747 | 8 | 7,755 |
| Net income | — | 630 | 630 | 9,811 | 74 | 9,885 |
| Depreciation and amortization | — | 38 | 38 | 8,647 | 23 | 8,670 |
| Cash received by PAL under cotton rebate program | — | — | — | 3,210 | — | 3,210 |
| Earnings recognized by PAL for cotton rebate program | — | — | — | 3,215 | — | 3,215 |
| Distributions received | — | — | — | — | — | — |

| | For the Nine Months Ended March 28, 2021 | | | For the Nine Months Ended March 29, 2020 | | |
|---|---|---|---|---|---|---|
| | PAL | UNFs | Total | PAL | UNFs | Total |
| Net sales | $ — | $ 13,847 | $ 13,847 | $ 531,669 | $ 14,212 | $ 545,881 |
| Gross profit | — | 2,580 | 2,580 | 13,067 | 1,745 | 14,812 |
| Income (loss) from operations | — | 1,348 | 1,348 | (554) | 497 | (57) |
| Net income | — | 1,353 | 1,353 | 3,893 | 581 | 4,474 |
| Depreciation and amortization | — | 116 | 116 | 30,671 | 113 | 30,784 |
| Cash received by PAL under cotton rebate program | — | — | — | 10,366 | — | 10,366 |
| Earnings recognized by PAL for cotton rebate program | — | — | — | 9,569 | — | 9,569 |
| Distributions received | — | — | — | 10,437 | — | 10,437 |

## 19. Commitments and Contingencies

*Collective Bargaining Agreements*

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

*Environmental*

On September 30, 2004, Unifi Kinston, LLC ("UK"), a subsidiary of Unifi, Inc., completed its acquisition of polyester filament manufacturing assets located in Kinston, North Carolina from Invista S.a.r.l. ("INVISTA"). The land for the Kinston site was leased pursuant to a 99-year ground lease (the "Ground Lease") with E.I. DuPont de Nemours ("DuPont"). Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the U.S. Environmental Protection Agency and the North Carolina Department of Environmental Quality ("DEQ") pursuant to the Resource Conservation and Recovery Act Corrective Action program. The program requires DuPont to identify all potential areas of environmental concern ("AOCs"), assess the extent of containment at the identified AOCs and remediate the AOCs to comply with applicable regulatory standards. Effective

March 20, 2008, UK entered into a lease termination agreement associated with conveyance of certain assets at the Kinston site to DuPont. This agreement terminated the Ground Lease and relieved UK of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to UK's period of operation of the Kinston site, which was from 2004 to 2008. At this time, UNIFI has no basis to determine if or when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same.

UK continues to own property (the "Kentec site") acquired in the 2004 transaction with INVISTA that has contamination from DuPont's prior operations and is monitored by DEQ. The Kentec site has been remediated by DuPont, and DuPont has received authority from DEQ to discontinue further remediation, other than natural attenuation. Prior to transfer of responsibility to UK, DuPont and UK had a duty to monitor and report the environmental status of the Kentec site to DEQ.

Effective April 10, 2019, UK assumed sole remediator responsibility of the Kentec site pursuant to its contractual obligations with INVISTA and received $180 of net monitoring and reporting costs due from DuPont. In connection with monitoring, UK expects to sample and report to DEQ annually. At this time, UNIFI does not expect any active site remediation will be required but expects that any costs associated with active site remediation, if ever required, would likely be immaterial.

## 20. Related Party Transactions

There were no related party receivables as of March 28, 2021 or June 28, 2020.

Related party payables for Salem Leasing Corporation consisted of the following:

| | March 28, 2021 | June 28, 2020 |
|---|---|---|
| Accounts payable | $ 460 | $ 616 |
| Operating lease obligations | 1,221 | 1,481 |
| Finance lease obligations | 6,441 | 6,509 |
| Total related party payables | $ 8,122 | $ 8,606 |

The following are the Company's significant related party transactions:

| | | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|---|
| Affiliated Entity | Transaction Type | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Salem Leasing Corporation | Payments for transportation equipment costs and finance lease debt service | $ 1,236 | $ 985 | $ 3,099 | $ 3,101 |

## 21. Business Segment Information

UNIFI defines operating segments as components of the organization for which discrete financial information is available and operating results are evaluated on a regular basis by UNIFI's principal executive officer, who is the chief operating decision maker (the "CODM"), in order to assess performance and allocate resources. Characteristics of UNIFI which were relied upon in making the determination of reportable segments include the nature of the products sold, the internal organizational 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 four reportable segments (the Polyester Segment, the Asia Segment, the Brazil Segment and the Nylon Segment) based on similarities between the operating segments' economic characteristics, nature of products sold, type of customer, methods of distribution and regulatory environment.

- The operations within the Polyester Segment exhibit similar long-term economic characteristics and primarily sell into an economic trading zone covered by the United States-Mexico-Canada Agreement ("USMCA"), North American Free Trade Agreement ("NAFTA") and Dominican Republic—Central America Free Trade Agreement ("CAFTA-DR") (collectively, the regions comprising these economic trading zones are referred to as "NACA") to similar customers utilizing similar methods of distribution. These operations derive revenues primarily from manufacturing 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, automotive, industrial and other end-use markets. The Polyester Segment consists of sales and manufacturing operations in the U.S. and El Salvador.
- The operations within the Asia Segment exhibit similar long-term economic characteristics and sell to similar customers utilizing similar methods of distribution primarily in Asia and Europe, which are outside of the NACA region. The Asia Segment primarily sources polyester-based products from third-party suppliers and sells to knitters and weavers that produce fabric for the apparel, automotive, home furnishings, automotive, industrial and other end-use markets principally in Asia. The Asia Segment includes a sales office in China.
- The Brazil Segment primarily manufactures and sells polyester-based products to knitters and weavers that produce fabric for the apparel, automotive, home furnishings, industrial and other end-use markets principally in South America. The Brazil Segment includes a manufacturing location and sales offices in Brazil.
- The operations within the Nylon Segment exhibit similar long-term economic characteristics and primarily sell into the NACA region to similar customers utilizing similar methods of distribution. These operations derive revenues primarily from manufacturing nylon-based products with sales to knitters and weavers that produce fabric primarily for the apparel, hosiery and medical markets. 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. The Nylon Segment consists of sales and manufacturing operations in the U.S. and Colombia.

In addition to UNIFI's reportable segments, an All Other category is included in the tables below. All Other consists primarily of for-hire transportation services. For-hire transportation services revenue is derived from performing common carrier services utilizing UNIFI's fleet of transportation equipment.

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

UNIFI evaluates the operating performance of its segments based upon Segment Profit, which represents segment gross profit (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 segment disclosures, as they are (i) insignificant to UNIFI's segments and eliminated from consolidated reporting and (ii) excluded from segment evaluations performed by the CODM.

Selected financial information is presented below:

| | For the Three Months Ended March 28, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Polyester | Asia | Brazil | Nylon | All Other | Total |
| Net sales | $ 82,668 | $ 48,483 | $ 25,704 | $ 20,778 | $ 1,233 | $ 178,866 |
| Cost of sales | 75,446 | 41,330 | 15,106 | 20,341 | 1,048 | 153,271 |
| Gross profit | 7,222 | 7,153 | 10,598 | 437 | 185 | 25,595 |
| Segment depreciation expense | 5,036 | — | 299 | 441 | 161 | 5,937 |
| Segment Profit | $ 12,258 | $ 7,153 | $ 10,897 | $ 878 | $ 346 | $ 31,532 |

| | For the Three Months Ended March 29, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Polyester | Asia | Brazil | Nylon | All Other | Total |
| Net sales | $ 89,767 | $ 38,621 | $ 21,060 | $ 20,567 | $ 979 | $ 170,994 |
| Cost of sales | 82,735 | 34,038 | 17,644 | 20,234 | 960 | 155,611 |
| Gross profit | 7,032 | 4,583 | 3,416 | 333 | 19 | 15,383 |
| Segment depreciation expense | 4,301 | — | 421 | 471 | 137 | 5,330 |
| Segment Profit | $ 11,333 | $ 4,583 | $ 3,837 | $ 804 | $ 156 | $ 20,713 |

| | For the Nine Months Ended March 28, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Polyester | Asia | Brazil | Nylon | All Other | Total |
| Net sales | $ 228,440 | $ 130,898 | $ 72,563 | $ 47,815 | $ 3,431 | $ 483,147 |
| Cost of sales | 205,691 | 112,639 | 49,375 | 46,318 | 3,034 | 417,057 |
| Gross profit | 22,749 | 18,259 | 23,188 | 1,497 | 397 | 66,090 |
| Segment depreciation expense | 13,909 | — | 1,050 | 1,321 | 489 | 16,769 |
| Segment Profit | $ 36,658 | $ 18,259 | $ 24,238 | $ 2,818 | $ 886 | $ 82,859 |

| | For the Nine Months Ended March 29, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Polyester | Asia | Brazil | Nylon | All Other | Total |
| Net sales | $ 261,212 | $ 132,496 | $ 66,094 | $ 57,853 | $ 2,799 | $ 520,454 |
| Cost of sales | 239,725 | 118,114 | 55,089 | 56,296 | 2,739 | 471,963 |
| Gross profit | 21,487 | 14,382 | 11,005 | 1,557 | 60 | 48,491 |
| Segment depreciation expense | 12,525 | — | 1,153 | 1,465 | 300 | 15,443 |
| Segment Profit | $ 34,012 | $ 14,382 | $ 12,158 | $ 3,022 | $ 360 | $ 63,934 |

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Polyester | $ 7,222 | $ 7,032 | $ 22,749 | $ 21,487 |
| Asia | 7,153 | 4,583 | 18,259 | 14,382 |
| Brazil | 10,598 | 3,416 | 23,188 | 11,005 |
| Nylon | 437 | 333 | 1,497 | 1,557 |
| All Other | 185 | 19 | 397 | 60 |
| Segment gross profit | 25,595 | 15,383 | 66,090 | 48,491 |
| Selling, general and administrative expenses | 14,581 | 11,720 | 38,570 | 35,208 |
| (Benefit) provision for bad debts | (184) | 580 | (1,330) | 331 |
| Other operating expense (income), net | 2,582 | (62) | 4,236 | 900 |
| Operating income | 8,616 | 3,145 | 24,614 | 12,052 |
| Interest income | (159) | (173) | (471) | (595) |
| Interest expense | 885 | 1,231 | 2,589 | 3,589 |
| Equity in earnings of unconsolidated affiliates | (528) | (3,526) | (751) | (1,904) |
| Impairment of investment in unconsolidated affiliate | — | 45,194 | — | 45,194 |
| Income (loss) before income taxes | $ 8,418 | $ (39,581) | $ 23,247 | $ (34,232) |

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

| | March 28, 2021 | June 28, 2020 |
|---|---|---|
| Polyester | $ 271,682 | $ 263,496 |
| Asia | 61,494 | 41,452 |
| Brazil | 62,898 | 49,967 |
| Nylon | 42,357 | 42,020 |
| Segment total assets | 438,431 | 396,935 |
| Other current assets | 62,460 | 48,600 |
| Other PP&E | 22,036 | 23,676 |
| Other operating lease assets | 1,210 | 1,503 |
| Other non-current assets | 4,235 | 3,448 |
| Total assets | $ 528,372 | $ 474,162 |

**22. Supplemental Cash Flow Information**

Cash payments for interest and taxes consist of the following:

| | For the Nine Months Ended | |
|---|---|---|
| | March 28, 2021 | March 29, 2020 |
| Interest, net of capitalized interest of $145 and $86, respectively | $ 2,395 | $ 3,535 |
| Income tax payments, net | 4,039 | 4,833 |

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

*Non-Cash Investing and Financing Activities*

As of March 28, 2021 and June 28, 2020, $1,241 and $630, respectively, were included in accounts payable for unpaid capital expenditures. As of March 29, 2020 and June 30, 2019, $619 and $1,329, respectively, were included in accounts payable for unpaid capital expenditures.

During the nine months ended March 28, 2021 and March 29, 2020, UNIFI recorded non-cash activity relating to finance leases of $740 and $6,301, respectively.

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

The following is management's discussion and analysis of certain significant factors that have affected UNIFI's operations, along with material changes in financial condition, during the periods included in the accompanying condensed consolidated financial statements. A reference to a "note" in this section refers to the accompanying notes to condensed consolidated financial statements. A reference to the "current period" refers to the three-month period ended March 28, 2021, while a reference to the "prior period" refers to the three-month period ended March 29, 2020. A reference to the "current nine-month period" refers to the nine-month period ended March 28, 2021, while a reference to the "prior nine-month period" refers to the nine-month period ended March 29, 2020. Such references may be accompanied by certain phrases for added clarity. The current period and the prior period each consisted of 13 weeks. The current nine-month period and the prior nine-month period each consisted of 39 weeks.

Our discussions in this Item 2 focus on our results during, or as of, the three months and nine months ended March 28, 2021 and March 29, 2020, and, to the extent applicable, any material changes from the information discussed in the 2020 Form 10-K or other important intervening developments or information. These discussions should be read in conjunction with the 2020 Form 10-K for more detailed and background information about our business, operations and financial condition. Discussion of foreign currency translation is primarily associated with the weakening of the Brazilian Real ("BRL") and changes in the Chinese Renminbi ("RMB") versus the U.S. Dollar ("USD"). In discussion of operating results in this report, we refer to our operations in the "NACA" region, which is the region comprised of the trade zones covered by USMCA, NAFTA and CAFTA-DR.

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

### Overview and Significant General Matters

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

UNIFI has four reportable segments for its operations – the Polyester Segment, the Asia Segment, the Brazil Segment and the Nylon Segment – as well as certain ancillary operations that include for-hire transportation services, which comprise an All Other category. The ancillary operations classified within All Other are insignificant for all periods presented; therefore, UNIFI's discussion and analysis of those activities is generally limited to their impact on consolidated results, where appropriate.

*COVID-19 Pandemic*

In March 2020, the World Health Organization declared the current COVID-19 outbreak a global pandemic. Efforts to contain the spread of COVID-19 intensified during March and April 2020. Several states, including North Carolina, where UNIFI's primary manufacturing and administrative operations are located, declared states of emergency. A number of foreign and local governments also enacted temporary business closures, issued quarantine orders and took other restrictive measures in response to the COVID-19 pandemic. The local and global measures significantly reduced economic activity and demand, thereby reducing overall demand for UNIFI's products from March 2020 to December 2020.

In an effort to protect the health and safety of our employees, customers and communities, UNIFI took proactive, aggressive actions from the earliest signs of the outbreak that included social distancing and travel restriction policies for all locations, along with reducing costs in both manufacturing and selling, general and administrative expenses ("SG&A") without impacting our ability to service customers. These measures remain in effect and are evaluated regularly against local, state and federal recommendations.

Global measures taken to reduce the spread of the COVID-19 pandemic generated a significant decline in global business activity that may have a lasting impact on the global economy and consumer demand. The duration of the COVID-19 pandemic and its related impact on our business is currently unknown. Through March 2020, the COVID-19 pandemic had no significant adverse impact on UNIFI's business, although sales growth for our Asia Segment was temporarily slowed by the extensive government shutdown in China. Throughout calendar 2020, the Asia Segment's overall performance and profitability was moderately impacted by the COVID-19 pandemic, while our U.S., Brazil and El Salvador operations were more adversely impacted by the COVID-19 pandemic, most notably in the June 2020 quarter during the most intense declines in global demand. The global disruption caused by the COVID-19 pandemic has negatively impacted, and will continue to negatively impact, overall global demand and business activity, including textiles in both the Americas and Asia for a currently unknown duration.

While our operating results for the current nine-month period indicate a robust recovery of the textile supply chain and increased activity from the considerably low levels of demand experienced in the June 2020 quarter, significant restoration of consumer spending and retail activity will be critical to our end-markets to enable a full and sustained economic rebound. UNIFI anticipates a recovery in global economic activity when the COVID-19 pandemic is sufficiently contained. The economic rebound will depend on the pace and effectiveness of the containment efforts deployed by various international, national, state, and local governments, along with the speed and effectiveness with which potential treatment and vaccine methods are deployed. However, the anticipated economic rebound would be jeopardized by a significant degradation in local and global healthcare systems' abilities to treat infections, mutations of the virus that cause further difficulty in containment efforts, or shelter-in-place orders in UNIFI's primary geographic markets.

Specifically, the local government in Sao Paolo, Brazil issued lockdown orders during late March 2021 that continued into April 2021 in an effort to slow the spread of COVID-19 among its citizens. Additionally, store closings and manufacturing shutdowns occurred around that same time. The restrictions caused an immediate disruption to our Brazil Segment's revenue during the quarantine period. A significant recovery in sales volumes immediately following the lockdown will be necessary for the Brazil Segment to continue achieving quarterly segment net sales in excess of $20,000.

Despite economic pressures amid the COVID-19 pandemic, textile demand and business activity levels in the current nine-month period exceeded our expectations when we began the fiscal year. However, there is no certainty that such levels will continue or increase during the remainder of calendar 2021. Additionally, there is no clear indication that the recent demand and activity levels were the result of economic restoration, as those levels could have been favorably impacted by pent up demand. UNIFI will continue to monitor the COVID-19 pandemic, prioritizing the health and safety of our employees, while delivering on customer demand.

While our year-to-date fiscal 2021 results have exceeded our expectations and we have experienced several improvements across certain financial metrics, our underlying sales volumes in certain core markets have not fully recovered. Therefore, we are unsure of the impact on our operational and financial results through at least fiscal 2021, based on present factors and conditions, along with the uncertainty surrounding global demand.

*Update on Recent Trade Initiatives*

UNIFI remains committed to pursuing relief from the elevated levels of low-cost and subsidized polyester textured yarn (“Subject Imports”) entering the U.S. market from foreign countries. Trade petition efforts to slow low-cost and subsidized polyester textured yarn from China and India were successful during calendar 2019, which led to a temporary improvement in our U.S. polyester textured yarn sales prior to the onset of the COVID-19 pandemic during the March 2020 quarter.

Subsequent to the completion of the trade initiatives against China and India, imports from Indonesia, Malaysia, Thailand, and Vietnam seemingly replaced much of the imports from China and India and surged into the U.S. market. Subject Imports from Indonesia, Malaysia, Thailand, and Vietnam increased from calendar 2017 to calendar 2019 by over 80%. Similar to the adverse impacts of imports from China and India in previous years, the Subject Imports from Indonesia, Malaysia, Thailand, and Vietnam undersold the domestic industry, taking sales from and exerting considerable downward pricing pressure on yarns produced by UNIFI. Accordingly, UNIFI is a petitioner to the United States Department of Commerce (the “Department of Commerce”) and the United States International Trade Commission (the "USITC") alleging dumping of polyester textured yarn in the U.S. market from Indonesia, Malaysia, Thailand, and Vietnam.

In December 2020, the USITC made affirmative determinations in its preliminary phase of antidumping duty investigations concerning polyester textured yarn from Indonesia, Malaysia, Thailand, and Vietnam. Preliminary determinations from the Department of Commerce are expected during the June 2021 quarter. The entire investigative process will take approximately one year, with final determinations of dumping rates likely occurring by the end of calendar 2021.

*Recent Raw Material Volatility*

At the beginning of the March 2021 quarter, UNIFI expected increases in certain raw material costs associated with rising global petroleum prices. As the March 2021 quarter transpired, (i) the state of Texas experienced harsh weather conditions that placed significant pressure on the U.S. supply chain for polyester feedstock and (ii) global petroleum prices rose. Both events caused a rise in polyester raw material costs for UNIFI, increasing the March 28, 2021 inventory balance. UNIFI’s selling price adjustments typically lag raw material cost changes by an average of approximately 90 days. Accordingly, UNIFI’s June 2021 quarter will include gross margin pressure from the impact of higher raw material costs carried in inventory and the inherent lag in implementing responsive selling price adjustments.

*Current Nine-Month Period Performance*

Prior to the COVID-19 pandemic, our operations were achieving incremental sales volume growth from both (i) continued demand for sustainable products with our REPREVE® platform and (ii) U.S. market share recapture from our trade initiatives that were finalized in January 2020. Additionally, we have recently benefited from a more favorable polyester raw material cost environment, most notably in the first six months of fiscal 2021.

In the current nine-month period, our Polyester and Nylon Segments were adversely impacted by the COVID-19 pandemic, as manufacturing activity in the U.S. has recovered less rapidly than in Asia and Brazil, while production activity in Central America surged following the June 2020 quarter. Although productivity remains pressured by lower global demand, our Asia Segment continues to perform well with both new and existing customer programs. The Brazil Segment was able to navigate its domestic recovery more favorably than competitive importers, resulting in sales volume and market share growth compared to recent fiscal years. We believe the outperformance by the Brazil Segment includes the temporary capture of market share from competitive imports and higher conversion margin due to the unfavorable dynamics facing competitors regarding input and freight costs combined with weaker delivery speed. Competition, pricing, and gross margins are expected to normalize over the mid- to long-term, especially following the exceptional gross margin rates achieved by the Brazil Segment for both the current period and current nine-month period.

Although sales volumes in the NACA region were pressured in the current nine-month period, our operations benefited from raw material and selling price stability and sales mix improvements. Accordingly, we were able to achieve better-than-expected operating results in the current nine-month period.

While sales and gross profit pressures from the COVID-19 pandemic have weighed on our financial results, we have remained diligent in managing our operations as efficiently and effectively as possible while delivering on customer demand. Accordingly, we generated operating cash flows in the current nine-month period and reduced our debt principal during fiscal 2021. Our performance in fiscal 2021 has further strengthened our balance sheet and solidified the foundation for further growth subsequent to the negative impacts of the COVID-19 pandemic.

We believe that several facets of our business will remain drivers for growth once the COVID-19 pandemic subsides, including: (i) continued sales and portfolio growth for our Asia Segment, (ii) U.S. market share recapture from our recent trade initiatives, (iii) continued commitments in sustainability by corporations, governments and other entities leading to further demand for our REPREVE® platform, (iv) leading-edge innovation and commercialization efforts that deliver meaningful consumer products, and (v) continued expansion of our portfolio with additional markets, applications, and brand partners.

**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 (loss) and diluted EPS;
- Segment Profit, which equals segment gross profit plus segment depreciation expense;
- unit conversion margin, which represents unit net sales price less unit raw material costs, for UNIFI and for each reportable segment;
- working capital, which represents current assets less current liabilities;
- Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), which represents Net income (loss) before net interest expense, income tax expense and depreciation and amortization expense;
- Adjusted EBITDA, which represents EBITDA adjusted to exclude equity in earnings of PAL, and, from time to time, certain other adjustments necessary to understand and compare the underlying results of UNIFI;
- Adjusted Net Income, which represents net income (loss) calculated under GAAP, adjusted to exclude certain amounts which management believes do not reflect the ongoing operations and performance of UNIFI and/or for which exclusion may be necessary to understand and compare the underlying results of UNIFI;
- Adjusted EPS, which represents Adjusted Net Income divided by UNIFI's weighted average common shares outstanding;
- Adjusted Working Capital, which equals receivables plus inventories and other current assets, less accounts payable and accrued expenses; and
- Net Debt, which represents debt principal less cash and cash equivalents.

EBITDA, Adjusted EBITDA, Adjusted Net Income, Adjusted EPS, Adjusted Working Capital and Net Debt (collectively, the "non-GAAP financial measures") are not determined in accordance with GAAP and should not be considered a substitute for performance measures determined in accordance with GAAP. The calculations of the non-GAAP financial measures are subjective, based on management's belief as to which items should be included or excluded in order to provide the most reasonable and comparable view of the underlying operating performance of the business. We may, from time to time, modify the amounts used to determine our non-GAAP financial measures. When applicable, management's discussion and analysis includes specific consideration for items that comprise the reconciliations of its non-GAAP financial measures. We believe that these non-GAAP financial measures better reflect UNIFI's underlying operations and performance and that their use, as operating performance measures, provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets, among otherwise comparable companies.

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

Management uses Adjusted 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.

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

Management uses Net Debt as a liquidity and leverage metric to determine how much debt would remain if all cash and cash equivalents were used to pay down debt principal.

**Review of Results of Operations**

**Three Months Ended March 28, 2021 Compared to Three Months Ended March 29, 2020**

***Consolidated Overview***

The below tables provide:

- the components of net income (loss) and the percentage increase or decrease over the prior fiscal year amounts,
- a reconciliation from net income (loss) to EBITDA and Adjusted EBITDA, and
- a reconciliation from net income (loss) to Adjusted Net Income and Adjusted EPS.

Following the tables is a discussion and analysis of the significant components of net income (loss).

*Net income (loss)*

| | For the Three Months Ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | March 28, 2021 | | | March 29, 2020 | | | |
| | | | % of Net Sales | | | % of Net Sales | % Change |
| Net sales | $ | 178,866 | 100.0 | $ | 170,994 | 100.0 | 4.6 |
| Cost of sales | | 153,271 | 85.7 | | 155,611 | 91.0 | (1.5) |
| Gross profit | | 25,595 | 14.3 | | 15,383 | 9.0 | 66.4 |
| SG&A | | 14,581 | 8.2 | | 11,720 | 6.9 | 24.4 |
| (Benefit) provision for bad debts | | (184) | (0.1) | | 580 | 0.3 | (131.7) |
| Other operating expense (income), net | | 2,582 | 1.4 | | (62) | — | nm |
| Operating income | | 8,616 | 4.8 | | 3,145 | 1.8 | 174.0 |
| Interest expense, net | | 726 | 0.4 | | 1,058 | 0.6 | (31.4) |
| Equity in earnings of unconsolidated affiliates | | (528) | (0.3) | | (3,526) | (2.1) | (85.0) |
| Impairment of investment in unconsolidated affiliate | | — | — | | 45,194 | 26.4 | (100.0) |
| Income (loss) before income taxes | | 8,418 | 4.7 | | (39,581) | (23.1) | (121.3) |
| Provision for income taxes | | 3,660 | 2.0 | | 1,530 | 0.9 | 139.2 |
| Net income (loss) | $ | 4,758 | 2.7 | $ | (41,111) | (24.0) | (111.6) |

nm – Not meaningful

*EBITDA and Adjusted EBITDA (Non-GAAP Financial Measures)*

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

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| | March 28, 2021 | | March 29, 2020 | |
| Net income (loss) | $ | 4,758 | $ | (41,111) |
| Interest expense, net | | 726 | | 1,058 |
| Provision for income taxes | | 3,660 | | 1,530 |
| Depreciation and amortization expense (1) | | 6,761 | | 6,014 |
| EBITDA | | 15,905 | | (32,509) |
| | | | | |
| Equity in earnings of PAL | | — | | (3,336) |
| EBITDA excluding PAL | | 15,905 | | (35,845) |
| | | | | |
| Impairment of investment in unconsolidated affiliate (2) | | — | | 45,194 |
| Adjusted EBITDA | $ | 15,905 | $ | 9,349 |

(1) Within this reconciliation, depreciation and amortization expense excludes the amortization of debt issuance costs, which are reflected in interest expense, net. Within the accompanying condensed consolidated statements of cash flows, amortization of debt issuance costs is reflected in depreciation and amortization expense.

(2) In the third quarter of fiscal 2020, UNIFI recorded an impairment charge of $45,194 related to the April 2020 sale of its 34% interest in PAL.

*Adjusted Net Income and Adjusted EPS (Non-GAAP Measures)*

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

| | For the Three Months Ended March 28, 2021 | | | | For the Three Months Ended March 29, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Pre-tax Income | Tax Impact | Net Income | Diluted EPS | Pre-tax (Loss) Income | Tax Impact | Net (Loss) Income | Diluted EPS |
| GAAP results | $ 8,418 | $ (3,660) | $ 4,758 | $ 0.25 | $ (39,581) | $ (1,530) | $ (41,111) | $ (2.23) |
| Impairment of investment in unconsolidated affiliate (1) | — | — | — | — | 45,194 | — | 45,194 | 2.45 |
| Adjusted results | $ 8,418 | $ (3,660) | $ 4,758 | $ 0.25 | $ 5,613 | $ (1,530) | $ 4,083 | $ 0.22 |
| | | | | | | | | |
| Weighted average common shares outstanding | | | | 18,967 | | | | 18,475 |

(1) For the three months ended March 29, 2020, UNIFI recorded an impairment charge of $45,194 related to the April 2020 sale of its 34% interest in PAL.

***Net Sales***

Consolidated net sales increased $7,872, or 4.6%, for the current period in comparison to the prior period, primarily attributable to (i) sales growth in Asia due to continued sales momentum for REPREVE-branded products and (ii) higher selling prices in Brazil.

Consolidated sales volumes increased 8.3% in the current period, primarily attributable to continued expansion of REPREVE-branded product for the Asia Segment. The increase was partially offset by the adverse impact of the COVID-19 pandemic on U.S. product demand, as the North America market has experienced significant, but not full recovery, since the June 2020 quarter.

Once the COVID-19 pandemic subsides, we believe incremental revenue for the Polyester Segment will be generated from both the polyester textured yarn trade petition completed in early calendar 2020 and the actions currently pending with the USITC and Department of Commerce. However, our Nylon Segment results continue to reflect the current global trend of declining demand for nylon socks, ladies' hosiery and intimate apparel.

Consolidated average sales prices decreased 3.7%, primarily attributable to a lower priced sales mix.

REPREVE® Fiber products for the current period comprised 33% of consolidated net sales, up from 29% for the prior period and 31% for fiscal 2020.

***Gross Profit***

Gross profit for the current period increased by $10,212, or 66.4%, as compared to the prior period. Although the COVID-19 pandemic adversely impacted sales volumes in our Polyester Segment, an improved sales mix and manufacturing efficiencies helped drive gross profit improvement. Sales volumes in our Asia Segment outperformed in the current period as compared to the prior period, where sales growth was temporarily slowed by the COVID-19 pandemic. Further, the Brazil Segment outperformed with an exceptional gross margin in the current period, primarily due to higher pricing levels under an improved competitive position.

- For the Polyester Segment, gross profit benefited from an improved sales mix and manufacturing efficiencies.
- For the Asia Segment, gross profit benefited from cost and sales mix improvements combined with higher sales volumes.
- For the Brazil Segment, gross profit benefited from strong local pricing due to temporary market share capture.

***SG&A***

SG&A increased from the prior period, primarily due to higher accrued incentive compensation in the current period, as UNIFI recognized the maximum annual bonus accrual through the nine months ended March 28, 2021.

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

The current period and prior period reflect no material activity for bad debts.

***Other Operating Expense (Income), Net***

The current period reflects a predominantly non-cash loss on the disposal of assets of $2,559 primarily relating to the removal of existing texturing machinery to allow for the future installation of new eAFK Evo texturing machinery. The prior period reflects no material activity.

***Interest Expense, Net***

Interest expense, net decreased from the prior period to the current period, primarily attributable to a lower average debt principal. The components of consolidated interest expense, net were as follows:

| | For the Three Months Ended | |
|---|---|---|
| | March 28, 2021 | March 29, 2020 |
| Interest and fees on the ABL Facility | $ 732 | $ 977 |
| Other interest | 148 | 223 |
| Subtotal of interest on debt obligations | 880 | 1,200 |
| Other components of interest expense | 5 | 31 |
| Total interest expense | 885 | 1,231 |
| Interest income | (159) | (173) |
| Interest expense, net | $ 726 | $ 1,058 |

***Equity in Earnings of Unconsolidated Affiliates***

The components of equity in earnings of unconsolidated affiliates were as follows:

| | For the Three Months Ended | |
|---|---|---|
| | March 28, 2021 | March 29, 2020 |
| Earnings from PAL | $ — | $ (3,336) |
| Earnings from nylon joint ventures | (528) | (190) |
| Total equity in earnings of unconsolidated affiliates | $ (528) | $ (3,526) |
| | | |
| As a percentage of consolidated income before income taxes | 6.3% | 8.9% |

On April 29, 2020, UNIFI sold its 34% non-controlling partnership interest in PAL (the "PAL Investment"). The comparative decrease in earnings from PAL reflects earnings recorded in the prior period with no results recorded in the current period.

***Impairment of Investment in Unconsolidated Affiliate***

As of March 29, 2020, UNIFI owned a 34% interest in PAL and Parkdale, Incorporated ("Parkdale") owned the majority 66% interest. During March 2020, UNIFI commenced negotiations to sell the PAL Investment to Parkdale. Such negotiations indicated that the fair value of the PAL Investment was less than UNIFI's carrying value and UNIFI no longer intended to hold the PAL Investment to allow recovery of the carrying value. UNIFI recorded an other-than-temporary impairment of $45,194 to adjust the PAL Investment to fair value.

In April 2020, UNIFI and Parkdale finalized negotiations to sell UNIFI's PAL Investment to Parkdale for $60,000. The transaction closed on April 29, 2020 and UNIFI received $60,000 in cash.

***Income Taxes***

Provision for income taxes and the effective tax rate were as follows:

| | For the Three Months Ended | |
|---|---|---|
| | March 28, 2021 | March 29, 2020 |
| Provision for income taxes | $ 3,660 | $ 1,530 |
| Effective tax rate | 43.5% | (3.9)% |

The effective tax rate is subject to variation due to numerous factors, including variability in the amount of income before income taxes, the mix of income by jurisdiction, changes in deferred tax valuation allowances and changes in statutes, regulations and case law. Additionally, the impacts of discrete and other rate impacting items are greater when income before income taxes is lower.

The increase in the effective tax rate from the prior period to the current period is primarily attributable to (i) an impairment charge in the prior period for which UNIFI does not expect to realize a future benefit, and (ii) a higher rate impact of U.S. tax on GILTI in the current period.

***Net Income (Loss)***

Net income for the current period was $4,758, or $0.25 per share, compared to a net loss of $(41,111) or $(2.23) per share, for the prior period. The prior period included an impairment charge for the PAL Investment. Excluding the impairment charge, the change in net income was primarily due to higher gross profit in the current period, partially offset by higher SG&A and the loss on the disposal of assets of $2,559.

**Adjusted EBITDA (Non-GAAP Financial Measure)**

Adjusted EBITDA increased from the prior period to the current period, commensurate with higher gross profit. The increase was partially offset by higher SG&A and the loss on the disposal of assets of $2,559.

**Adjusted Net Income and Adjusted EPS (Non-GAAP Financial Measures)**

Adjusted Net Income and Adjusted EPS increased from the prior period to the current period, commensurate with higher gross profit. The increase was partially offset by higher SG&A and the loss on the disposal of assets of $2,559.

**Segment Overview**

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

***Polyester Segment***

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

| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 28, 2021 | | March 29, 2020 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 82,668 | 100.0 | $ 89,767 | 100.0 | (7.9) |
| Cost of sales | 75,446 | 91.3 | 82,735 | 92.2 | (8.8) |
| Gross profit | 7,222 | 8.7 | 7,032 | 7.8 | 2.7 |
| Depreciation expense | 5,036 | 6.1 | 4,301 | 4.8 | 17.1 |
| Segment Profit | $ 12,258 | 14.8 | $ 11,333 | 12.6 | 8.2 |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 46.2% | | 52.5% | | |
| Segment Profit as a percentage of consolidated amounts | 38.9% | | 54.7% | | |

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

| | |
|---|---|
| Net sales for the prior period | $ 89,767 |
| Decrease in sales volumes | (8,976) |
| Net change in average selling price and sales mix | 1,877 |
| Net sales for the current period | $ 82,668 |

The decrease in net sales for the Polyester Segment from the prior period to the current period was primarily attributable to lower sales volumes as our U.S. market continues to recover from demand declines in connection with the COVID-19 pandemic. In the prior period, sales volumes were higher primarily due to the acceleration of customer orders in connection with (i) finalized polyester textured yarn trade petitions against China and India and (ii) anticipation of April 2020 pandemic-related lockdowns.

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

| | |
|---|---|
| Segment Profit for the prior period | $ 11,333 |
| Net increase in underlying margins | 2,059 |
| Decrease in sales volumes | (1,134) |
| Segment Profit for the current period | $ 12,258 |

The increase in Segment Profit for the Polyester Segment from the prior period to the current period was primarily attributable to (i) improved conversion margin, (ii) manufacturing efficiencies, and (iii) a better sales mix, partially offset by lower sales volumes.

***Asia 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 Asia Segment, were as follows:

| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 28, 2021 | | March 29, 2020 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 48,483 | 100.0 | $ 38,621 | 100.0 | 25.5 |
| Cost of sales | 41,330 | 85.2 | 34,038 | 88.1 | 21.4 |
| Gross profit | 7,153 | 14.8 | 4,583 | 11.9 | 56.1 |
| Depreciation expense | — | — | — | — | — |
| Segment Profit | $ 7,153 | 14.8 | $ 4,583 | 11.9 | 56.1 |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 27.1% | | 22.6% | | |
| Segment Profit as a percentage of consolidated amounts | 22.7% | | 22.1% | | |

The change in net sales for the Asia Segment was as follows:

| | | |
|---|---|---|
| Net sales for the prior period | $ | 38,621 |
| Increase in sales volumes of Chip and staple fiber | | 8,029 |
| Net increase in sales volumes of certain other products | | 5,327 |
| Change in average selling price and sales mix | | (6,435) |
| Favorable foreign currency translation effects | | 2,941 |
| Net sales for the current period | $ | 48,483 |

The increase in net sales for the Asia Segment from the prior period to the current period was primarily attributable to higher sales volumes driven by the continued momentum of REPREVE®-branded products and favorable foreign currency translation effects. Sales volumes in the prior period were adversely impacted by manufacturing shutdowns of customers in China in response to the spread of COVID-19.

The RMB weighted average exchange rate was 6.49 RMB/USD and 6.98 RMB/USD for the current period and the prior period, respectively.

The change in Segment Profit for the Asia Segment was as follows:

| | | |
|---|---|---|
| Segment Profit for the prior period | $ | 4,583 |
| Change in underlying margins and sales mix | | 1,181 |
| Increase in sales volumes | | 1,047 |
| Favorable foreign currency translation effects | | 342 |
| Segment Profit for the current period | $ | 7,153 |

Segment Profit for the Asia Segment increased from the prior period, primarily due to (i) higher sales volumes, (ii) raw material cost benefits achieved on certain product lines, (iii) sales mix improvements, and (iv) favorable foreign currency translation effects.

***Brazil 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 Brazil Segment, were as follows:

| | For the Three Months Ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | March 28, 2021 | | | March 29, 2020 | | | |
| | | | % of Net Sales | | | % of Net Sales | % Change |
| Net sales | $ | 25,704 | 100.0 | $ | 21,060 | 100.0 | 22.1 |
| Cost of sales | | 15,106 | 58.8 | | 17,644 | 83.8 | (14.4) |
| Gross profit | | 10,598 | 41.2 | | 3,416 | 16.2 | nm |
| Depreciation expense | | 299 | 1.2 | | 421 | 2.0 | (29.0) |
| Segment Profit | $ | 10,897 | 42.4 | $ | 3,837 | 18.2 | 184.0 |
| | | | | | | | |
| Segment net sales as a percentage of consolidated amounts | | 14.4% | | | 12.3% | | |
| Segment Profit as a percentage of consolidated amounts | | 34.6% | | | 18.5% | | |

The change in net sales for the Brazil Segment was as follows:

| | | |
|---|---|---|
| Net sales for the prior period | $ | 21,060 |
| Increase in average selling price | | 7,635 |
| Increase in sales volumes | | 958 |
| Unfavorable foreign currency translation effects | | (3,949) |
| Net sales for the current period | $ | 25,704 |

The increase in net sales for the Brazil Segment from the prior period to the current period was primarily attributable to the Brazil Segment's ability to capture market share from competitors and increase selling prices, partially offset by unfavorable foreign currency translation effects.

The BRL weighted average exchange rate was 5.47 BRL/USD and 4.44 BRL/USD for the current period and the prior period, respectively.

The change in Segment Profit for the Brazil Segment was as follows:

| | | |
|---|---|---|
| Segment Profit for the prior period | $ | 3,837 |
| Increase in underlying margins | | 7,576 |
| Increase in sales volumes | | 178 |
| Unfavorable foreign currency translation effects | | (694) |
| Segment Profit for the current period | $ | 10,897 |

The exceptional increase in Segment Profit for the Brazil Segment from the prior period to the current period was primarily attributable to the segment's ability to achieve favorable pricing and utilization levels under a strengthened competitive position, partially offset by unfavorable foreign currency translation effects.

***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, were as follows:

| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 28, 2021 | | March 29, 2020 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 20,778 | 100.0 | $ 20,567 | 100.0 | 1.0 |
| Cost of sales | 20,341 | 97.9 | 20,234 | 98.4 | 0.5 |
| Gross profit | 437 | 2.1 | 333 | 1.6 | 31.2 |
| Depreciation expense | 441 | 2.1 | 471 | 2.3 | (6.4) |
| Segment Profit | $ 878 | 4.2 | $ 804 | 3.9 | 9.2 |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 11.6% | | 12.0% | | |
| Segment Profit as a percentage of consolidated amounts | 2.8% | | 3.9% | | |

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

| | |
|---|---|
| Net sales for the prior period | $ 20,567 |
| Increase in sales volumes | 3,813 |
| Net change in average selling price and sales mix | (3,602) |
| Net sales for the current period | $ 20,778 |

The increase in net sales for the Nylon Segment from the prior period to the current period was primarily attributable to higher sales volumes, partially offset by a shift in sales mix following declines in hosiery demand.

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

| | |
|---|---|
| Segment Profit for the prior period | $ 804 |
| Increase in sales volumes | 149 |
| Net decrease in underlying margins | (75) |
| Segment Profit for the current period | $ 878 |

Segment Profit for the Nylon Segment in the current period was slightly higher, primarily due to higher sales volumes.

**Review of Results of Operations**

**Nine Months Ended March 28, 2021 Compared to Nine Months Ended March 29, 2020**

***Consolidated Overview***

The below tables provide:

- the components of net income (loss) and the percentage increase or decrease over the prior fiscal year amounts,
- a reconciliation from net income (loss) to EBITDA and Adjusted EBITDA, and
- a reconciliation from net income (loss) to Adjusted Net Income and Adjusted EPS.

Following the tables is a discussion and analysis of the significant components of net income (loss).

Net income (loss)

| | For the Nine Months Ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | March 28, 2021 | | | March 29, 2020 | | | |
| | | | % of Net Sales | | | % of Net Sales | % Change |
| Net sales | $ | 483,147 | 100.0 | $ | 520,454 | 100.0 | (7.2) |
| Cost of sales | | 417,057 | 86.3 | | 471,963 | 90.7 | (11.6) |
| Gross profit | | 66,090 | 13.7 | | 48,491 | 9.3 | 36.3 |
| SG&A | | 38,570 | 8.0 | | 35,208 | 6.8 | 9.5 |
| (Benefit) provision for bad debts | | (1,330) | (0.3) | | 331 | — | nm |
| Other operating expense, net | | 4,236 | 0.9 | | 900 | 0.2 | nm |
| Operating income | | 24,614 | 5.1 | | 12,052 | 2.3 | 104.2 |
| Interest expense, net | | 2,118 | 0.5 | | 2,994 | 0.6 | (29.3) |
| Equity in earnings of unconsolidated affiliates | | (751) | (0.2) | | (1,904) | (0.4) | (60.6) |
| Impairment of investment in unconsolidated affiliate | | — | — | | 45,194 | 8.7 | (100.0) |
| Income (loss) before income taxes | | 23,247 | 4.8 | | (34,232) | (6.6) | (167.9) |
| Provision for income taxes | | 7,593 | 1.6 | | 2,758 | 0.5 | 175.3 |
| Net income (loss) | $ | 15,654 | 3.2 | $ | (36,990) | (7.1) | (142.3) |

nm – Not meaningful

EBITDA and Adjusted EBITDA (Non-GAAP Financial Measures)

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

| | For the Nine Months Ended | | | |
|---|---|---|---|---|
| | March 28, 2021 | | March 29, 2020 | |
| Net income (loss) | $ | 15,654 | $ | (36,990) |
| Interest expense, net | | 2,118 | | 2,994 |
| Provision for income taxes | | 7,593 | | 2,758 |
| Depreciation and amortization expense (1) | | 18,829 | | 17,499 |
| EBITDA | | 44,194 | | (13,739) |
| | | | | |
| Equity in earnings of PAL | | — | | (1,324) |
| EBITDA excluding PAL | | 44,194 | | (15,063) |
| | | | | |
| Impairment of investment in unconsolidated affiliate (2) | | — | | 45,194 |
| Severance (3) | | — | | 383 |
| Adjusted EBITDA | $ | 44,194 | $ | 30,514 |

(1) Within this reconciliation, depreciation and amortization expense excludes the amortization of debt issuance costs, which are reflected in interest expense, net. Within the accompanying condensed consolidated statements of cash flows, amortization of debt issuance costs is reflected in depreciation and amortization expense.

(2) In the third quarter of fiscal 2020, UNIFI recorded an impairment charge of $45,194 related to the April 2020 sale of its 34% interest in PAL.

(3) In the second quarter of fiscal 2020, UNIFI commenced a wind-down plan for its operations in Sri Lanka. The adjustment primarily reflects accrued severance and exit costs.

*Adjusted Net Income and Adjusted EPS (Non-GAAP Measures)*

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

| | For the Nine Months Ended March 28, 2021 | | | | For the Nine Months Ended March 29, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Pre-tax Income | Tax Impact | Net Income | Diluted EPS | Pre-tax (Loss) Income | Tax Impact | Net (Loss) Income | Diluted EPS |
| GAAP results | $ 23,247 | $ (7,593) | $ 15,654 | $ 0.83 | $ (34,232) | $ (2,758) | $ (36,990) | $ (2.00) |
| Impairment of investment in unconsolidated affiliate (1) | — | — | — | — | 45,194 | — | 45,194 | 2.44 |
| Severance (2) | — | — | — | — | 383 | (80) | 303 | 0.02 |
| Adjusted results | $ 23,247 | $ (7,593) | $ 15,654 | $ 0.83 | $ 11,345 | $ (2,838) | $ 8,507 | $ 0.46 |
| | | | | | | | | |
| Weighted average common shares outstanding | | | | 18,796 | | | | 18,485 |

(1) For the nine months ended March 29, 2020, UNIFI recorded an impairment charge of $45,194 related to the April 2020 sale of its 34% interest in PAL.

(2) In the second quarter of fiscal 2020, UNIFI commenced a wind-down plan for its operations in Sri Lanka. The adjustment primarily reflects accrued severance and exit costs.

***Net Sales***

Consolidated net sales decreased $37,307, or 7.2%, for the current nine-month period in comparison to the prior nine-month period primarily attributable to (i) the COVID-19 pandemic, (ii) lower nylon sales volumes, (iii) lower average selling prices, and (iv) unfavorable foreign currency translation.

Consolidated sales volumes decreased 0.1%, primarily attributable to (i) the adverse impact of the COVID-19 pandemic on product demand and (ii) lower sales in the Nylon Segment. However, the overall volume decrease was partially offset by the Brazil Segment, which was agile and responsive to COVID-19 pandemic-related demand fluctuations in the current nine-month period and generated volume growth by capturing market share from competitors.

Once the COVID-19 pandemic subsides, we believe incremental revenue for the Polyester Segment will be generated from both the polyester textured yarn trade petition completed in early calendar 2020 and the actions currently pending with the USITC and Department of Commerce. However, the Nylon Segment results continue to reflect the adverse impacts of (i) customers shifting certain programs to overseas garment production and (ii) the current global trend of declining demand for nylon socks, ladies' hosiery and intimate apparel.

Consolidated average sales prices decreased 7.1%, primarily attributable to (i) a decline in higher-priced nylon product sales, (ii) sales price declines associated with polyester raw material cost changes, and (iii) unfavorable foreign currency translation.

REPREVE® Fiber products for the current nine-month period comprised 35% of consolidated net sales, up from 31% for the prior nine-month period and 31% for fiscal 2020.

***Gross Profit***

Gross profit for the current nine-month period increased by $17,599, or 36.3%, as compared to the prior nine-month period. The COVID-19 pandemic adversely impacted sales and production volumes for our Polyester and Nylon Segments, driving comparably lower profitability in the U.S. during the September 2020 quarter. The COVID-19 pandemic also adversely impacted sales volumes for the Asia Segment. However, the Brazil Segment outperformed the prior nine-month period by capturing market share and maintaining strong conversion margin.

- For the Polyester Segment, gross profit benefited from a better sales mix, higher conversion margin and manufacturing cost improvements, but was adversely impacted by lower fixed cost absorption due to lower demand in the September 2020 quarter.
- For the Asia Segment, gross profit increased from the prior nine-month period primarily due to supply chain efficiencies driving lower costs for certain products and sales mix improvements.
- For the Brazil Segment, gross profit increased from the prior nine-month period primarily due to higher sales volumes and conversion margin due to temporary market share capture, partially offset by unfavorable foreign currency translation impacts.
- For the Nylon Segment, gross profit decreased primarily due to lower demand levels driven by the COVID-19 pandemic and shifts towards overseas production.

***SG&A***

SG&A increased from the prior nine-month period, primarily due to higher accrued incentive compensation in the current nine-month period, as UNIFI recognized the maximum annual bonus accrual through the nine months ended March 28, 2021. The increase was partially offset by lower travel and entertainment expenses in the current nine-month period due to COVID-19 pandemic related restrictions.

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

The current nine-month period benefit for bad debts reflects general improvement in customer payment frequency following the adverse effects of the COVID-19 pandemic on customer health. The prior period reflects no material activity.

***Other Operating Expense, Net***

The current nine-month period reflects (i) a predominantly non-cash loss on the disposal of assets of $2,773 primarily relating to the removal of existing texturing machinery to allow for the future installation of new eAFK Evo texturing machinery, (ii) severance charges of $837 and (iii) foreign currency transaction losses of $610. The prior nine-month period reflects severance charges of $1,003.

***Interest Expense, Net***

Interest expense, net decreased from the prior nine-month period to the current nine-month period, primarily attributable to a lower average debt principal. The components of consolidated interest expense, net were as follows:

| | For the Nine Months Ended | |
|---|---|---|
| | March 28, 2021 | March 29, 2020 |
| Interest and fees on the ABL Facility | $ 2,229 | $ 3,026 |
| Other interest | 328 | 463 |
| Subtotal of interest on debt obligations | 2,557 | 3,489 |
| Other components of interest expense | 32 | 100 |
| Total interest expense | 2,589 | 3,589 |
| Interest income | (471) | (595) |
| Interest expense, net | $ 2,118 | $ 2,994 |

***Equity in Earnings of Unconsolidated Affiliates***

The components of equity in earnings of unconsolidated affiliates were as follows:

| | For the Nine Months Ended | |
|---|---|---|
| | March 28, 2021 | March 29, 2020 |
| Earnings from PAL | $ — | $ (1,324) |
| Earnings from nylon joint ventures | (751) | (580) |
| Total equity in earnings of unconsolidated affiliates | $ (751) | $ (1,904) |
| | | |
| As a percentage of consolidated income before income taxes | 3.2% | 5.6% |

On April 29, 2020, UNIFI sold the PAL Investment. The comparative decrease in earnings from PAL reflects earnings recorded in the prior nine-month period with no results recorded in the current nine-month period.

***Impairment of Investment in Unconsolidated Affiliate***

In April 2020, UNIFI and Parkdale finalized negotiations to sell UNIFI's PAL Investment to Parkdale for $60,000. UNIFI recorded an impairment charge of $45,194 to adjust the PAL Investment to fair value. The transaction closed on April 29, 2020 and UNIFI received $60,000 in cash.

***Income Taxes***

Provision for income taxes and the effective tax rate were as follows:

| | For the Nine Months Ended | |
|---|---|---|
| | March 28, 2021 | March 29, 2020 |
| Provision for income taxes | $ 7,593 | $ 2,758 |
| Effective tax rate | 32.7% | (8.1)% |

The effective tax rate is subject to variation due to numerous factors, including variability in the amount of income before income taxes, the mix of income by jurisdiction, changes in deferred tax valuation allowances and changes in statutes, regulations and case law.  Additionally, the impacts of discrete and other rate impacting items are greater when income before income taxes is lower.

The increase in the effective tax rate from the prior nine-month period to the current nine-month period is primarily attributable to (i) an impairment charge in the prior period for which UNIFI does not expect to realize a future benefit, (ii) a higher rate impact of U.S. tax on GILTI in the current nine-month period, and (iii) a benefit for foreign tax credits in the prior nine-month period. This increase is partially offset by a discrete benefit in the current nine-month period for the retroactive GILTI high-tax exclusion for prior periods.

***Net Income (Loss)***

Net income for the current nine-month period was $15,654, or $0.83 per share, compared to net loss of $(36,990) or $(2.00) per share, for the prior nine-month period. The prior nine-month period included an impairment charge of $45,194 for the PAL Investment. Excluding the impairment charge, the improvement in net income was primarily attributable to higher gross profit in the current nine-month period.

**Adjusted EBITDA (Non-GAAP Financial Measure)**

Adjusted EBITDA increased from the prior nine-month period to the current nine-month period, primarily due to higher gross profit.

**Adjusted Net Income and Adjusted EPS (Non-GAAP Financial Measures)**

Adjusted Net Income and Adjusted EPS increased from the prior nine-month period to the current nine-month period, commensurate with higher gross profit.

**Segment Overview**

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

***Polyester Segment***

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

| | For the Nine Months Ended | | | | |
|---|---|---|---|---|---|
| | March 28, 2021 | | March 29, 2020 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 228,440 | 100.0 | $ 261,212 | 100.0 | (12.5) |
| Cost of sales | 205,691 | 90.1 | 239,725 | 91.8 | (14.2) |
| Gross profit | 22,749 | 9.9 | 21,487 | 8.2 | 5.9 |
| Depreciation expense | 13,909 | 6.1 | 12,525 | 4.8 | 11.0 |
| Segment Profit | $ 36,658 | 16.0 | $ 34,012 | 13.0 | 7.8 |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 47.3% | | 50.2% | | |
| Segment Profit as a percentage of consolidated amounts | 44.2% | | 53.2% | | |

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

| | |
|---|---|
| Net sales for the prior nine-month period | $ 261,212 |
| Decrease in sales volumes | (21,353) |
| Net change in average selling price and sales mix | (11,419) |
| Net sales for the current nine-month period | $ 228,440 |

The decrease in net sales for the Polyester Segment from the prior nine-month period to the current nine-month period was primarily attributable to (i) the adverse impact of the COVID-19 pandemic on market demand and (ii) lower average selling prices associated with lower polyester raw material costs.

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

| | |
|---|---|
| Segment Profit for the prior nine-month period | $ 34,012 |
| Change in underlying margins and sales mix | 5,428 |
| Decrease in sales volumes | (2,782) |
| Segment Profit for the current nine-month period | $ 36,658 |

The increase in Segment Profit for the Polyester Segment from the prior nine-month period to the current nine-month period was primarily attributable to (i) a better sales mix, (ii) stable conversion margin, and (iii) manufacturing cost improvements, partially offset by lower sales volumes experienced in the September 2020 quarter in connection with the COVID-19 pandemic.

***Asia Segment***

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

| | For the Nine Months Ended | | | | |
|---|---|---|---|---|---|
| | March 28, 2021 | | March 29, 2020 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 130,898 | 100.0 | $ 132,496 | 100.0 | (1.2) |
| Cost of sales | 112,639 | 86.1 | 118,114 | 89.1 | (4.6) |
| Gross profit | 18,259 | 13.9 | 14,382 | 10.9 | 27.0 |
| Depreciation expense | — | — | — | — | — |
| Segment Profit | $ 18,259 | 13.9 | $ 14,382 | 10.9 | 27.0 |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 27.1% | | 25.5% | | |
| Segment Profit as a percentage of consolidated amounts | 22.0% | | 22.5% | | |

The change in net sales for the Asia Segment was as follows:

| | |
|---|---|
| Net sales for the prior nine-month period | $ 132,496 |
| Change in average selling price and sales mix | (12,851) |
| Decrease in sales volumes of Chip and staple fiber | (4,648) |
| Net increase in sales volumes of certain other products | 9,271 |
| Favorable foreign currency translation effects | 6,630 |
| Net sales for the current nine-month period | $ 130,898 |

The decrease in net sales for the Asia Segment from the prior nine-month period to the current nine-month period was primarily attributable to overall lower sales volumes during the first half of fiscal 2021, driven by the adverse impacts of the COVID-19 pandemic, partially offset by the continued momentum of REPREVE®-branded products contributing to underlying sales growth.

The RMB weighted average exchange rate was 6.65 RMB/USD and 7.02 RMB/USD for the current nine-month period and the prior nine-month period, respectively.

The change in Segment Profit for the Asia Segment was as follows:

| | |
|---|---|
| Segment Profit for the prior nine-month period | $ 14,382 |
| Change in underlying margins and sales mix | 3,158 |
| Favorable foreign currency translation effects | 749 |
| Net change in sales volumes | (30) |
| Segment Profit for the current nine-month period | $ 18,259 |

The increase in Segment Profit for the Asia Segment from the prior nine-month period to the current nine-month period was primarily attributable to raw material cost benefits achieved on certain product lines and higher conversion margin.

***Brazil Segment***

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

| | For the Nine Months Ended | | | | |
|---|---|---|---|---|---|
| | March 28, 2021 | | March 29, 2020 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 72,563 | 100.0 | $ 66,094 | 100.0 | 9.8 |
| Cost of sales | 49,375 | 68.0 | 55,089 | 83.3 | (10.4) |
| Gross profit | 23,188 | 32.0 | 11,005 | 16.7 | 110.7 |
| Depreciation expense | 1,050 | 1.4 | 1,153 | 1.7 | (8.9) |
| Segment Profit | $ 24,238 | 33.4 | $ 12,158 | 18.4 | 99.4 |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 15.0% | | 12.7% | | |
| Segment Profit as a percentage of consolidated amounts | 29.3% | | 19.0% | | |

The change in net sales for the Brazil Segment was as follows:

| | | |
|---|---|---|
| Net sales for the prior nine-month period | $ | 66,094 |
| Increase in average selling price and change in sales mix | | 11,805 |
| Increase in sales volumes | | 9,969 |
| Unfavorable foreign currency translation effects | | (15,305) |
| Net sales for the current nine-month period | $ | 72,563 |

The increase in net sales for the Brazil Segment from the prior nine-month period to the current nine-month period was primarily attributable to the Brazil Segment's ability to capture market share from competitors and increase selling prices, partially offset by unfavorable foreign currency translation effects.

The BRL weighted average exchange rate was 5.43 BRL/USD and 4.17 BRL/USD for the current nine-month period and the prior nine-month period, respectively.

The change in Segment Profit for the Brazil Segment was as follows:

| | | |
|---|---|---|
| Segment Profit for the prior nine-month period | $ | 12,158 |
| Increase in underlying margins | | 13,038 |
| Increase in sales volumes | | 1,838 |
| Unfavorable foreign currency translation effects | | (2,796) |
| Segment Profit for the current nine-month period | $ | 24,238 |

The increase in Segment Profit for the Brazil Segment from the prior nine-month period to the current nine-month period was primarily attributable to an improved sales mix and conversion margin combined with higher sales volumes stemming from a temporarily improved competitive position in Brazil, partially offset by unfavorable foreign currency translation effects.

***Nylon Segment***

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

| | For the Nine Months Ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | March 28, 2021 | | | March 29, 2020 | | | |
| | | | % of Net Sales | | | % of Net Sales | % Change |
| Net sales | $ | 47,815 | 100.0 | $ | 57,853 | 100.0 | (17.4) |
| Cost of sales | | 46,318 | 96.9 | | 56,296 | 97.3 | (17.7) |
| Gross profit | | 1,497 | 3.1 | | 1,557 | 2.7 | (3.9) |
| Depreciation expense | | 1,321 | 2.8 | | 1,465 | 2.5 | (9.8) |
| Segment Profit | $ | 2,818 | 5.9 | $ | 3,022 | 5.2 | (6.8) |
| | | | | | | | |
| Segment net sales as a percentage of consolidated amounts | | 9.9% | | | 11.1% | | |
| Segment Profit as a percentage of consolidated amounts | | 3.4% | | | 4.7% | | |

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

| | | |
|---|---|---|
| Net sales for the prior nine-month period | $ | 57,853 |
| Net change in average selling price and sales mix | | (5,931) |
| Decrease in sales volumes | | (4,107) |
| Net sales for the current nine-month period | $ | 47,815 |

The decrease in net sales for the Nylon Segment from the prior nine-month period to the current nine-month period was primarily attributable to (i) demand declines in connection with the COVID-19 pandemic and (ii) a customer shifting certain programs to overseas garment production subsequent to the prior nine-month period, contributing to (iii) a weaker sales mix following declines in hosiery demand.

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

| | | |
|---|---|---|
| Segment Profit for the prior nine-month period | $ | 3,022 |
| Decrease in sales volumes | | (215) |
| Net increase in underlying margins | | 11 |
| Segment Profit for the current nine-month period | $ | 2,818 |

The decrease in Segment Profit for the Nylon Segment from the prior nine-month period to the current nine-month period was primarily attributable to lower sales volumes.

**Liquidity and Capital Resources**

UNIFI's primary capital requirements are for working capital, capital expenditures, debt service and share repurchases. UNIFI's primary sources of capital are cash generated from operations and borrowings available under the ABL Revolver of its credit facility. For the current nine-month period, cash generated from operations was $25,710, and, at March 28, 2021, excess availability under the ABL Revolver was $63,314.

As of March 28, 2021, all of UNIFI's $89,394 of debt obligations were guaranteed by certain of its domestic operating subsidiaries, while 41% of UNIFI's cash and cash equivalents were held by its foreign subsidiaries. Cash and cash equivalents held by foreign subsidiaries may not be presently available to fund UNIFI's domestic capital requirements, including its domestic debt obligations. UNIFI employs a variety of strategies to ensure that its worldwide cash is available in the locations where it is needed.

The following table presents a summary of cash and cash equivalents, borrowings available under financing arrangements, liquidity, working capital and total debt obligations as of March 28, 2021 for domestic operations compared to foreign operations:

| | Domestic | Foreign | Total |
|---|---|---|---|
| Cash and cash equivalents | $ 44,387 | $ 31,211 | $ 75,598 |
| Borrowings available under financing arrangements | 63,314 | — | 63,314 |
| Liquidity | $ 107,701 | $ 31,211 | $ 138,912 |
| | | | |
| Working capital | $ 94,748 | $ 117,301 | $ 212,049 |
| Total debt obligations | $ 89,394 | $ — | $ 89,394 |

UNIFI's primary cash requirements, in addition to normal course operating activities (e.g. working capital and payroll), primarily include (i) capital expenditures that generally have commitments of up to 12 months, (ii) contractual obligations that support normal course ongoing operations and production, (iii) operating leases and finance leases, and (iv) debt service.

*COVID-19 Pandemic Liquidity Considerations*

Because global economic activity slowed within a short period of time, the COVID-19 pandemic introduced liquidity risk that was not present prior to calendar 2020. UNIFI believes that aggressive and prudent actions are necessary to preserve liquidity in the current economic environment, which is pressured by global demand declines and/or uncertainty that began in March 2020. Accordingly, to minimize the disruption to operations that could result from outbreaks among UNIFI employees, UNIFI has prioritized health and safety measures that include restricting travel and group meetings, enforcing social distancing and healthy habits, increased sanitization, and increased wellness monitoring. Additionally, the following aid in reducing risk and ensuring adequate cash is available to fund ongoing operations and obligations:

- Managing working capital levels and ensuring higher inventory turns.
- Participating in the supply chain for personal protective equipment and new customer programs.
- Lowering discretionary expenses that focus on long-term returns, such as marketing, event and other commercial expenses.
- Maintaining significant cash reserves from cash flows from operations and the proceeds from the PAL Investment sale in April 2020.

While we currently expect our significant cash balances and available borrowings to provide adequate liquidity during the on-going COVID-19 pandemic, should global demand and economic activity remain subdued beyond the short-term, UNIFI maintains the ability to (i) pursue aid and lending programs from governmental entities, (ii) seek additional credit or financing arrangements or extensions of existing arrangements, and (iii) implement further cost reduction initiatives to preserve cash and secure the longevity of the business and operations.

The following further describe the current strength of UNIFI's liquidity position and access to capital resources:

- We have not accessed public or private capital markets for recent liquidity needs.
- We do not currently expect our cost of or access to existing capital and funding sources to materially change as a result of the COVID-19 pandemic; however, new capital and funding sources (if any) may carry higher costs than our current structure.
- We have not taken advantage of rent, lease or debt deferrals, forbearance periods or other concessions, nor have we modified any material agreements to provide concessions.
- We have not relied on supply chain financing, structured trade payables or vendor financing.
- We are not at material risk of not meeting our financial covenants.
- We continue to maintain significant borrowing availability on our existing credit facility.

Lastly, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") allowed UNIFI to defer certain employer payroll tax payments to future periods, extend utilization of a net operating loss carryback, and attain certain employee retention credits, all of which are not material to our short- and long-term liquidity position. We have not applied for or obtained any other material federal or state assistance.

***Debt Obligations***

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

| | Scheduled Maturity Date | Weighted Average Interest Rate as of March 28, 2021 | Principal Amounts as of March 28, 2021 | Principal Amounts as of June 28, 2020 |
|---|---|---|---|---|
| ABL Revolver | December 2023 | 0.0% | $ — | $ — |
| ABL Term Loan | December 2023 | 3.3% (1) | 80,000 | 87,500 |
| Finance lease obligations | (2) | 3.6% | 9,394 | 11,381 |
| Total debt | | | 89,394 | 98,881 |
| Current ABL Term Loan | | | (10,000) | (10,000) |
| Current portion of finance lease obligations | | | (3,726) | (3,563) |
| Unamortized debt issuance costs | | | (534) | (711) |
| Total long-term debt | | | $ 75,134 | $ 84,607 |

(1) Includes the effects of interest rate swaps.
(2) Scheduled maturity dates for finance lease obligations range from May 2022 to November 2027.

As of March 28, 2021:

- UNIFI was in compliance with all financial covenants in the Credit Agreement,
- excess availability under the ABL Revolver was $63,314,
- the Trigger Level (as defined in the Credit Agreement) was $22,500, and
- $0 of standby letters of credit were outstanding.

UNIFI currently maintains three interest rate swaps that fix LIBOR at approximately 1.9% on $75,000 of variable-rate debt. Such swaps are scheduled to terminate in May 2022. Management will continue to monitor the expected termination of LIBOR and the impact on UNIFI's operations. However, management does not expect (i) significant efforts are necessary to accommodate a termination of LIBOR or (ii) a significant impact to UNIFI's operations upon a termination of LIBOR.

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 2021, the following four fiscal years and thereafter:

| | Fiscal 2021 | Fiscal 2022 | Fiscal 2023 | Fiscal 2024 | Fiscal 2025 | Thereafter |
|---|---|---|---|---|---|---|
| ABL Revolver | $ — | $ — | $ — | $ — | $ — | $ — |
| ABL Term Loan | 2,500 | 10,000 | 10,000 | 57,500 | — | — |
| Finance lease obligations | 919 | 3,545 | 1,257 | 1,301 | 1,195 | 1,177 |
| Total | $ 3,419 | $ 13,545 | $ 11,257 | $ 58,801 | $ 1,195 | $ 1,177 |

*Net Debt (Non-GAAP Financial Measure)*

The reconciliations for Net Debt are as follows:

| | March 28, 2021 | June 28, 2020 |
|---|---|---|
| Long-term debt | $ 75,134 | $ 84,607 |
| Current portion of long-term debt | 13,726 | 13,563 |
| Unamortized debt issuance costs | 534 | 711 |
| Debt principal | 89,394 | 98,881 |
| Less: cash and cash equivalents | 75,598 | 75,267 |
| Net Debt | $ 13,796 | $ 23,614 |

***Working Capital and Adjusted Working Capital (Non-GAAP Financial Measures)***

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

| | March 28, 2021 | June 28, 2020 |
|---|---|---|
| Cash and cash equivalents | $ 75,598 | $ 75,267 |
| Receivables, net | 96,988 | 53,726 |
| Inventories | 122,004 | 109,704 |
| Income taxes receivable | 9,594 | 4,033 |
| Other current assets | 8,475 | 11,763 |
| Accounts payable | (47,645) | (25,610) |
| Accrued expenses | (27,145) | (13,689) |
| Other current liabilities | (25,820) | (15,695) |
| Working capital | $ 212,049 | $ 199,499 |
| | | |
| Less: Cash and cash equivalents | (75,598) | (75,267) |
| Less: Income taxes receivable | (9,594) | (4,033) |
| Less: Other current liabilities | 25,820 | 15,695 |
| Adjusted Working Capital | $ 152,677 | $ 135,894 |

Working capital increased from $199,499 as of June 28, 2020 to $212,049 as of March 28, 2021, while Adjusted Working Capital increased from $135,894 to $152,677.

The increase in receivables, net and inventories was primarily attributable to increased sales in the current nine-month period following low sales activity in the June 2020 quarter due to significantly suppressed demand levels caused by the COVID-19 pandemic. The increase in income taxes receivable follows the application of the annualized effective tax rate to pre-tax losses. The decrease in other current assets was primarily due to the amount and timing of contract assets revenue recognition. The increase in accounts payable was consistent with the increase in sales and production activity following business recovery during the current nine-month period. The increase in accrued expenses was primarily attributable to higher incentive compensation accruals in the current nine-month period and an increase in deferred revenue associated with increased sales activity in the Asia Segment. The increase in other current liabilities is primarily attributable to the increase in income taxes payable following the application of the annualized effective tax rate to pre-tax income.

***Capital Projects***

During the current nine-month period, UNIFI invested approximately $12,000 in capital projects, primarily relating to (i) further improvements in production capabilities and technology enhancements in the Americas, (ii) eAFK Evo texturing machinery, and (iii) routine annual maintenance capital expenditures. Maintenance capital expenditures are necessary to support UNIFI's current operations, capacities and capabilities and exclude expenses relating to repairs and costs that do not extend an asset's useful life.

For the remainder of fiscal 2021, we expect to invest up to $12,000 in capital projects for an aggregate annual estimate of up to $24,000, to include (i) making further improvements in production capabilities and technology enhancements in the Americas, (ii) continuing the purchase and installation of new eAFK Evo texturing machines, and (iii) annual maintenance capital expenditures.

The total amount ultimately invested for fiscal 2021 could be more or less than the currently estimated amount depending on the timing and scale of contemplated initiatives and is expected to be funded primarily by existing cash and cash equivalents. UNIFI expects recent and future capital projects to provide benefits to future profitability. The additional assets from these capital projects consist primarily of machinery and equipment.

***Share Repurchase Program***

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

As of March 28, 2021, UNIFI repurchased a total of 84 shares during fiscal 2020, at an average price of $23.72 (for a total of $1,994 inclusive of commission costs) pursuant to the 2018 SRP. Accordingly, $48,008 remains available under the 2018 SRP as of March 28, 2021.

***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 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.

**Operating Cash Flows**

The significant components of net cash provided by operating activities are summarized below.

| | For the Nine Months Ended | |
|---|---|---|
| | March 28, 2021 | March 29, 2020 |
| Net income (loss) | $ 15,654 | $ (36,990) |
| Equity in earnings of unconsolidated affiliates | (751) | (1,904) |
| Depreciation and amortization expense | 19,007 | 17,685 |
| Impairment of investment in unconsolidated affiliate | — | 45,194 |
| Non-cash compensation expense | 2,656 | 2,510 |
| Deferred income taxes | (1,826) | (10,029) |
| Subtotal | 34,740 | 16,466 |
| | | |
| Distributions received from unconsolidated affiliates | — | 10,437 |
| Other changes | (9,030) | 5,202 |
| Net cash provided by operating activities | $ 25,710 | $ 32,105 |

The decrease in net cash provided by operating activities from the prior nine-month period was primarily due to $10,437 of distributions received from PAL in September 2019, while higher Adjusted EBITDA was partially offset by an increase in Adjusted Working Capital in the current nine-month period, both commensurate with business recovery since June 2020.

**Investing Cash Flows**

Investing activities include (i) approximately $12,000 for capital expenditures, which primarily relate to ongoing maintenance capital expenditures along with production capabilities and technology enhancements in the Americas and (ii) approximately $3,600 for intangible asset purchases in connection with two bolt-on asset acquisitions in an effort to expand our customer portfolios in the U.S.

**Financing Cash Flows**

Financing activities include scheduled payments against the ABL Term Loan and finance leases during fiscal 2021.

**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 2020 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 estimate from quarter to quarter could materially impact the presentation of the financial statements. UNIFI's critical accounting policies are discussed in the 2020 Form 10-K. There were no material changes to these policies during the current nine-month period.

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

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

***Interest Rate Risk***

UNIFI is exposed to interest rate risk through its borrowing activities. As of March 28, 2021, UNIFI had borrowings under its ABL Term Loan that totaled $80,000, with approximately $5,000 subject to variable rates of interest because UNIFI hedges a significant portion of interest rate variability using interest rate swaps. After considering the variable rate debt obligations that have been hedged and UNIFI's outstanding debt obligations with fixed rates of interest, UNIFI's sensitivity analysis indicates that a 50-basis point increase in LIBOR as of March 28, 2021 would result in an increase in annual interest expense of less than $100.

***Foreign Currency Exchange Rate Risk***

UNIFI conducts its business in various foreign countries and in various foreign currencies. Each of UNIFI's subsidiaries may enter into transactions (sales, purchases, fixed purchase commitments, etc.) that are denominated in currencies other than the subsidiary's functional currency and thereby expose UNIFI to foreign currency exchange rate risk. UNIFI may enter into foreign currency forward contracts to hedge this exposure. UNIFI may also enter into foreign currency forward contracts to hedge its exposure for certain equipment or inventory purchase commitments. As of March 28, 2021, UNIFI had no outstanding foreign currency forward contracts.

A significant portion of raw materials purchased by UNIFI's Brazilian subsidiary are denominated in USDs, requiring UNIFI to regularly exchange BRL. A significant portion of sales and asset balances for our Asian subsidiaries are denominated in USDs. During recent fiscal years and quarters, UNIFI was negatively impacted by a devaluation of the BRL. Also, the RMB experienced fluctuations, which generated foreign currency translation losses in certain fiscal quarters. Discussion and analysis surrounding the impact of the devaluation of the BRL and fluctuations in the value of 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." UNIFI does not enter into foreign currency derivatives to hedge its net investment in its foreign operations.

As of March 28, 2021, foreign currency exchange rate risk concepts included the following:

| | | Approximate Amount or Percentage |
|---|---|---|
| Percentage of total consolidated assets held by UNIFI's subsidiaries outside the U.S. whose functional currency is not the USD | | 23.5% |
| | | |
| Cash and cash equivalents held outside the U.S.: | | |
| Denominated in USD | $ | 10,277 |
| Denominated in RMB | | 7,795 |
| Denominated in BRL | | 7,331 |
| Denominated in other foreign currencies | | 407 |
| Total cash and cash equivalents held outside the U.S. | $ | 25,810 |
| Percentage of total cash and cash equivalents held outside the U.S. | | 34.1% |
| | | |
| Cash and cash equivalents held inside the U.S. in USD by foreign subsidiaries | $ | 5,401 |

***Raw Material and Commodity Risks***

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

During fiscal 2019 and 2018, UNIFI operated in a predominantly increasing raw material cost environment. UNIFI believes those higher costs were primarily a result of volatility in the crude oil markets, along with periods of supply and demand constraints for certain polyester feedstock.

During fiscal 2020 and the first six months of fiscal 2021, UNIFI experienced a predominantly favorable, declining raw material cost environment.

During the third quarter of fiscal 2021, UNIFI experienced cost increases for raw materials, primarily related to (i) increases in petroleum prices and (ii) supply chain disruptions that occurred in Texas during February 2021 due to abnormally cold weather. Our raw material costs remain subject to the volatility described above and, should raw material costs increase unexpectedly, UNIFI's results of operations and cash flows are likely to be adversely impacted.

***Other Risks***

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

## Item 4. Controls and Procedures

As of March 28, 2021, 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 its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that information required to be disclosed by UNIFI in the reports UNIFI files or submits under the Exchange Act is accumulated and communicated to UNIFI's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in UNIFI's internal control over financial reporting during the three months ended March 28, 2021 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

### Item 6. Exhibits

| Exhibit No. | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation of Unifi, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed October 31, 2016 (File No. 001-10542)). |
| 3.2 | Amended and Restated By-laws of Unifi, Inc., as of October 26, 2016 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed October 31, 2016 (File No. 001-10542)). |
| 3.3 | Declaration of Amendment to the Amended and Restated By-laws of Unifi, Inc. effective April 30, 2019 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed May 1, 2019 (File No. 001-10542)). |
| 31.1+ | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2+ | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1++ | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2++ | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document) |

\+ Filed herewith.

++ Furnished herewith.

**SIGNATURES**

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

**UNIFI, INC.**
(Registrant)

Date: May 5, 2021

By: /s/ CRAIG A. CREATURO
Craig A. Creaturo
Executive Vice President & Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

**Exhibit 31.1**

**CERTIFICATION**

I, Edmund M. Ingle, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 5, 2021

/s/ EDMUND M. INGLE
Edmund M. Ingle
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

# CERTIFICATION

I, Craig A. Creaturo, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 5, 2021

/s/ CRAIG A. CREATURO
Craig A. Creaturo
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

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

In connection with the Quarterly Report on Form 10-Q of Unifi, Inc. (the “Company”) for the period ended March 28, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edmund M. Ingle, 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: May 5, 2021

/s/ EDMUND M. INGLE
Edmund M. Ingle
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 32.2**

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

In connection with the Quarterly Report on Form 10-Q of Unifi, Inc. (the “Company”) for the period ended March 28, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Craig A. Creaturo, 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:May 5, 2021

/s/ CRAIG A. CREATURO

Craig A. Creaturo
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)