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

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended December 29, 2019**

**OR**

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

**For the transition period from _____ to _____**

**Commission File Number: 1-10542**

# UNIFI, INC.
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **New York** | **11-2165495** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **7201 West Friendly Avenue**<br>**Greensboro, North Carolina** | **27410** |
| **(Address of principal executive offices)** | **(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 February 3, 2020, there were 18,505,446 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 success of the Company's strategic business initiatives;
- the volatility of financial and credit markets;
- the ability to service indebtedness and fund capital expenditures and strategic business initiatives;
- the availability of and access to credit on reasonable terms;
- changes in foreign currency exchange, interest and inflation rates;
- fluctuations in production costs;
- the ability to protect intellectual property;
- the strength and reputation of our brands;
- employee relations;
- the ability to attract, retain and motivate key employees;
- the impact of environmental, health and safety regulations;
- the impact of tax laws, the judicial or administrative interpretations of tax laws and/or changes in such laws or interpretations;
- the operating performance of joint ventures and other equity method investments;
- the accurate financial reporting of information from equity method investees; and
- other factors discussed in "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2019 or in the Company's other periodic reports and information filed with the Securities and Exchange Commission.

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 SIX MONTHS ENDED DECEMBER 29, 2019

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## PART I—FINANCIAL INFORMATION

**Item 1. Financial Statements**

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

| | December 29, 2019 | June 30, 2019 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 37,210 | $ 22,228 |
| Receivables, net | 78,132 | 88,884 |
| Inventories | 133,893 | 133,781 |
| Income taxes receivable | 4,595 | 4,373 |
| Other current assets | 18,311 | 16,356 |
| Total current assets | 272,141 | 265,622 |
| Property, plant and equipment, net | 209,250 | 206,787 |
| Operating lease assets | 6,606 | — |
| Deferred income taxes | 2,529 | 2,581 |
| Investments in unconsolidated affiliates | 102,261 | 114,320 |
| Other non-current assets | 2,420 | 2,841 |
| Total assets | $ 595,207 | $ 592,151 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Accounts payable | $ 36,055 | $ 41,796 |
| Accrued expenses | 15,801 | 16,849 |
| Income taxes payable | 571 | 569 |
| Current operating lease liabilities | 1,734 | — |
| Current portion of long-term debt | 14,760 | 15,519 |
| Total current liabilities | 68,921 | 74,733 |
| Long-term debt | 113,738 | 111,541 |
| Non-current operating lease liabilities | 4,980 | — |
| Other long-term liabilities | 6,122 | 6,185 |
| Deferred income taxes | 5,967 | 6,847 |
| Total liabilities | 199,728 | 199,306 |
| | | |
| Commitments and contingencies | | |
| | | |
| Common stock, $0.10 par value (500,000,000 shares authorized; 18,505,446 and 18,462,296 shares issued and outstanding as of December 29, 2019 and June 30, 2019, respectively) | 1,851 | 1,846 |
| Capital in excess of par value | 61,187 | 59,560 |
| Retained earnings | 378,789 | 374,668 |
| Accumulated other comprehensive loss | (46,348) | (43,229) |
| Total shareholders' equity | 395,479 | 392,845 |
| Total liabilities and shareholders' equity | $ 595,207 | $ 592,151 |

See accompanying notes to condensed consolidated financial statements.

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 29, 2019 | December 30, 2018 | December 29, 2019 | December 30, 2018 |
| Net sales | $ 169,511 | $ 167,711 | $ 349,460 | $ 349,322 |
| Cost of sales | 153,846 | 153,555 | 316,352 | 315,147 |
| Gross profit | 15,665 | 14,156 | 33,108 | 34,175 |
| Selling, general and administrative expenses | 12,508 | 14,822 | 23,488 | 29,233 |
| (Benefit) provision for bad debts | (258) | 32 | (249) | 163 |
| Other operating expense (income), net | 854 | 99 | 962 | (141) |
| Operating income (loss) | 2,561 | (797) | 8,907 | 4,920 |
| Interest income | (212) | (152) | (422) | (299) |
| Interest expense | 1,101 | 1,355 | 2,358 | 2,822 |
| Loss on extinguishment of debt | — | 131 | — | 131 |
| Equity in loss (earnings) of unconsolidated affiliates | 756 | (1,014) | 1,622 | (1,253) |
| Income (loss) before income taxes | 916 | (1,117) | 5,349 | 3,519 |
| Provision (benefit) for income taxes | 507 | (2,288) | 1,228 | 536 |
| Net income | $ 409 | $ 1,171 | $ 4,121 | $ 2,983 |
| | | | | |
| Net income per common share: | | | | |
| Basic | $ 0.02 | $ 0.06 | $ 0.22 | $ 0.16 |
| Diluted | $ 0.02 | $ 0.06 | $ 0.22 | $ 0.16 |

See accompanying notes to condensed consolidated financial statements.

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 29, 2019 | December 30, 2018 | December 29, 2019 | December 30, 2018 |
| Net income | $ 409 | $ 1,171 | $ 4,121 | $ 2,983 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | 2,942 | 1,986 | (3,216) | (1,509) |
| Foreign currency translation adjustments for an unconsolidated affiliate | 306 | (303) | 136 | 42 |
| Changes in interest rate swaps, net of tax of $0, $219, $0 and $219, respectively | 289 | (953) | (39) | (725) |
| Other comprehensive income (loss), net | 3,537 | 730 | (3,119) | (2,192) |
| Comprehensive income | $ 3,946 | $ 1,901 | $ 1,002 | $ 791 |

See accompanying notes to condensed consolidated financial statements.

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

| | For the Six Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| Cash and cash equivalents at beginning of period | $ 22,228 | $ 44,890 |
| *Operating activities:* | | |
| Net income | 4,121 | 2,983 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Equity in loss (earnings) of unconsolidated affiliates | 1,622 | (1,253) |
| Distributions received from unconsolidated affiliates | 10,437 | 630 |
| Depreciation and amortization expense | 11,610 | 11,652 |
| Non-cash compensation expense | 1,837 | 3,039 |
| Deferred income taxes | (878) | (332) |
| Other, net | (64) | (269) |
| Changes in assets and liabilities: | | |
| Receivables, net | 9,873 | 6,504 |
| Inventories | (1,330) | (17,139) |
| Other current assets | (2,159) | (3,163) |
| Income taxes | (249) | 1,088 |
| Accounts payable and accrued expenses | (6,298) | (8,263) |
| Other, net | 113 | 548 |
| Net cash provided by (used in) operating activities | 28,635 | (3,975) |
| *Investing activities:* | | |
| Capital expenditures | (8,335) | (12,342) |
| Other, net | 60 | (20) |
| Net cash used in investing activities | (8,275) | (12,362) |
| *Financing activities:* | | |
| Proceeds from ABL Revolver | 41,100 | 53,500 |
| Payments on ABL Revolver | (38,000) | (65,100) |
| Proceeds from ABL Term Loan | — | 20,000 |
| Payments on ABL Term Loan | (5,000) | (5,000) |
| Payments on finance lease obligations | (3,085) | (3,583) |
| Proceeds from stock option exercises | 29 | 244 |
| Payments of debt financing fees | — | (665) |
| Other | (99) | (690) |
| Net cash used in financing activities | (5,055) | (1,294) |
| Effect of exchange rate changes on cash and cash equivalents | (323) | (606) |
| Net increase (decrease) in cash and cash equivalents | 14,982 | (18,237) |
| Cash and cash equivalents at end of period | $ 37,210 | $ 26,653 |

See accompanying notes to condensed consolidated financial statements.

## 1. Background

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

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

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

## 2. Basis of Presentation; Condensed Notes

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP") for interim financial information. As contemplated by the instructions of the Securities and Exchange Commission (the "SEC") to Form 10-Q, the following notes have been condensed and, therefore, do not contain all disclosures required in connection with annual financial statements. Reference should be made to UNIFI's year-end audited consolidated financial statements and related notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended June 30, 2019 (the "2019 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 December 29, 2019, the Sunday nearest to December 31, 2019. Unifi, Inc.'s remaining material operating subsidiaries' fiscal quarter ended on December 31, 2019. 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 December 29, 2019 and December 30, 2018 consisted of 13 weeks. For the primary subsidiaries in the U.S. and Central America, the six-month period ended December 29, 2019 consisted of 26 weeks and the six-month period ended December 30, 2018 consisted of 27 weeks.

## 3. Recent Accounting Pronouncements

*Issued and Pending Adoption*

In June 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments - Credit Losses*. The new guidance requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will begin to use forward-looking information to better inform their credit loss estimates. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019 and for interim periods therein, thus beginning with UNIFI's fiscal 2021 and associated first fiscal quarter. UNIFI has not and does not expect to early adopt this standard. UNIFI does not expect this standard will have a material impact on its consolidated financial position, results of operations or cash flows.

*Recently Adopted*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new lease guidance was adopted in the first quarter of fiscal 2020, and adoption is described in more detail in Note 4, "Leases."

Relating to the transition to ASU No. 2016-02, PAL expects to adopt the new lease guidance in its fiscal year 2021 ending on January 1, 2022. PAL is currently evaluating the impact of the new lease guidance.

In fiscal 2019, UNIFI adopted the new revenue recognition guidance prescribed by ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. See Note 5, "Revenue Recognition," for further detail regarding adoption and additional disclosures.

Under the guidance in the SEC Staff Announcement on July 20, 2017 relating to the transition to ASU No. 2014-09, due to its status as a significant subsidiary of Unifi, Inc., PAL adopted the new revenue recognition guidance as of December 28, 2019, with no material impact on its consolidated financial position, results of operations or cash flows in connection with the adoption.

Based on UNIFI's review of ASUs issued since the filing of the 2019 Form 10-K, there have been no other newly issued or newly applicable accounting pronouncements that have had, or are expected to have, a significant impact on UNIFI's consolidated financial statements.

**4. Leases**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. UNIFI adopted the new lease guidance utilizing the modified retrospective transition method, applied at the date of adoption, recording existing leases as of the effective date, July 1, 2019. Under this method, no adjustment to comparative prior periods is required and, accordingly, financial statement information and disclosures required under Topic 842 will not be provided for dates and periods prior to July 1, 2019. UNIFI made no adjustment to the July 1, 2019 opening retained earnings balance for fiscal 2020.

UNIFI adopted the following practical expedients and elected the following accounting policies related to this standard update:

- carry forward of historical lease classifications and accounting treatment for existing land easements;
- not to reassess whether any expired or existing contracts are or contain leases;
- not to reassess initial direct costs for any existing leases;
- the use of hindsight;
- short-term lease accounting policy election allowing lessees to not recognize right-of-use assets and liabilities for leases with a term of 12 months or less and to recognize lease payments on a straight-line basis over the lease term and variable payments in the period the obligation is incurred; and
- the option to not separate lease and non-lease components for the transportation equipment asset class.

UNIFI routinely leases sales and administrative office space, warehousing and distribution centers, manufacturing space, transportation equipment, manufacturing equipment, and other information technology and office equipment from third parties. The lease terms range from 1 to 15 years with various options for renewal. There are no residual value guarantees, restrictions, covenants or sub-leases related to these leases. Variable lease payments are determined as the amounts included in the lease payment that are based on the change in index or usage. The adoption of this standard resulted in the recognition of operating lease right-of-use assets of $9,802 and corresponding lease liabilities of $10,105 with the difference adjusting prepayments and accruals on the consolidated balance sheet as of July 1, 2019. UNIFI's accounting for finance leases remained substantially unchanged. The standard did not materially impact operating results or liquidity. Disclosures related to the amount, timing and uncertainty of cash flows arising from leases are included below.

The following table sets forth the balance sheet location and values of the Company's lease assets and lease liabilities at December 29, 2019:

| Classification | Balance Sheet Location | | December 29, 2019 |
|---|---|---|---|
| **Lease Assets** | | | |
| Operating lease assets | Operating lease assets | $ | 6,606 |
| Finance lease assets | Property, plant & equipment, net | | 25,733 |
| Total lease assets | | $ | 32,339 |
| | | | |
| **Lease Liabilities** | | | |
| Current operating lease liabilities | Current operating lease liabilities | $ | 1,734 |
| Current finance lease liabilities | Current portion of long-term debt | | 4,760 |
| Total current lease liabilities | | $ | 6,494 |
| | | | |
| Non-current operating lease liabilities | Non-current operating lease liabilities | $ | 4,980 |
| Non-current finance lease liabilities | Long-term debt | | 9,572 |
| Total non-current lease liabilities | | $ | 14,552 |
| | | | |
| Total lease liabilities | | $ | 21,046 |

The following table sets forth the components of UNIFI's total lease cost for the three months and six months ended December 29, 2019:

| Lease Cost | | For the Three Months Ended December 29, 2019 | | For the Six Months Ended December 29, 2019 |
|---|---|---|---|---|
| Operating lease cost | $ | 741 | $ | 1,594 |
| Variable lease cost | | 107 | | 197 |
| Finance lease cost: | | | | |
| Amortization of lease assets | | 678 | | 1,205 |
| Interest on lease liabilities | | 101 | | 201 |
| Short-term lease cost | | 206 | | 547 |
| Total lease cost | $ | 1,833 | $ | 3,744 |

The following table presents supplemental information related to leases at December 29, 2019:

| Other Information | For the Six Months Ended December 29, 2019 |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows used by operating leases | $ 1,594 |
| Financing cash flows used by finance leases | $ 3,085 |
| Non-cash activities: | |
| Leased assets obtained in exchange for new operating lease liabilities | $ 85 |
| Leased assets obtained in exchange for new finance lease liabilities | $ 6,301 |

UNIFI calculates its operating lease liabilities and finance lease liabilities entered into after the adoption of the new lease standard based upon UNIFI's incremental borrowing rate (the "IBR"). When determining the IBR, we consider our centralized treasury function and our current credit profile. We then make adjustments to this rate for securitization, the length of the lease term, and leases denominated in foreign currencies. Generally, the IBR for each jurisdiction is the specific risk-free rate for the respective jurisdiction incremented for UNIFI's corporate credit risk.

The following table sets forth UNIFI's weighted average remaining lease term in years and discount rate percentage used in the calculation of its outstanding lease liabilities as of December 29, 2019:

| Weighted Average Remaining Lease Term and Discount Rate | December 29, 2019 |
|---|---|
| Weighted average remaining lease term (years): | |
| Operating leases | 4.5 |
| Finance leases | 4.3 |
| Weighted average discount rate (percentage): | |
| Operating leases | 3.9% |
| Finance leases | 3.6% |

*Lease Maturity Analysis*

Future minimum finance lease payments and future minimum payments under non-cancelable operating leases with initial lease terms in excess of one year under Topic 842 as of December 29, 2019 by fiscal year were:

| Maturity of Lease Liabilities | Finance Leases | Operating Leases |
|---|---|---|
| Fiscal 2020 | $ 3,226 | $ 1,016 |
| Fiscal 2021 | 3,989 | 1,870 |
| Fiscal 2022 | 3,684 | 1,418 |
| Fiscal 2023 | 1,260 | 1,252 |
| Fiscal 2024 | 1,307 | 1,115 |
| Fiscal years thereafter | 2,625 | 688 |
| Total minimum lease payments | $ 16,091 | $ 7,359 |
| Less estimated executory costs | (607) | — |
| Less imputed interest | (1,152) | (645) |
| Present value of net minimum lease payments | 14,332 | 6,714 |
| Less current portion of lease obligations | (4,760) | (1,734) |
| Long-term portion of lease obligations | $ 9,572 | $ 4,980 |

*Prior Year Disclosure*

As reported in the 2019 Form 10-K under the previous accounting guidance, future minimum capital lease payments and future minimum lease payments under non-cancelable operating leases with initial lease terms in excess of one year as of June 30, 2019 by fiscal year were:

| | Capital Leases | Operating Leases |
|---|---|---|
| Fiscal 2020 | $ 5,917 | $ 3,164 |
| Fiscal 2021 | 2,870 | 2,731 |
| Fiscal 2022 | 2,565 | 1,492 |
| Fiscal 2023 | 189 | 878 |
| Fiscal 2024 | 189 | 755 |
| Fiscal years thereafter | 675 | 309 |
| Total minimum lease payments | $ 12,405 | $ 9,329 |
| Less estimated executory costs | (644) | |
| Less interest | (643) | |
| Present value of net minimum capital lease payments | 11,118 | |
| Less current portion of capital lease obligations | (5,519) | |
| Long-term portion of capital lease obligations | $ 5,599 | |

Rental expenses incurred under the operating leases and included in operating income consist of the following:

| | For the Fiscal Year Ended | | |
|---|---|---|---|
| | June 30, 2019 | June 24, 2018 | June 25, 2017 |
| Rental expenses | $ 4,915 | $ 4,835 | $ 4,357 |

## 5. Revenue Recognition

The following table presents disaggregated revenues for UNIFI:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 29, 2019 | December 30, 2018 | December 29, 2019 | December 30, 2018 |
| Third-party manufacturer | $ 167,537 | $ 165,338 | $ 345,557 | $ 344,659 |
| Service | 1,974 | 2,373 | 3,903 | 4,663 |
| Net sales | $ 169,511 | $ 167,711 | $ 349,460 | $ 349,322 |

*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.

*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.

## 6. Receivables, Net

Receivables, net consists of the following:

| | December 29, 2019 | June 30, 2019 |
|---|---|---|
| Customer receivables | $ 78,786 | $ 89,495 |
| Allowance for uncollectible accounts | (1,965) | (2,338) |
| Reserves for quality claims | (1,161) | (961) |
| Net customer receivables | 75,660 | 86,196 |
| Other receivables | 2,472 | 2,688 |
| Total receivables, net | $ 78,132 | $ 88,884 |

There have been no material changes in UNIFI's allowance for uncollectible accounts or reserves for yarn quality claims since June 30, 2019.

**7. Inventories**

Inventories consists of the following:

| | December 29, 2019 | June 30, 2019 |
|---|---|---|
| Raw materials | $ 53,448 | $ 55,531 |
| Supplies | 9,550 | 9,020 |
| Work in process | 7,358 | 8,510 |
| Finished goods | 66,001 | 63,111 |
| Gross inventories | 136,357 | 136,172 |
| Inventory reserves | (2,464) | (2,391) |
| Total inventories | $ 133,893 | $ 133,781 |

**8. Other Current Assets**

Other current assets consists of the following:

| | December 29, 2019 | June 30, 2019 |
|---|---|---|
| Contract assets | $ 8,505 | $ 7,794 |
| Vendor deposits | 3,573 | 4,187 |
| Value-added taxes receivable | 3,735 | 2,519 |
| Prepaid expenses | 2,498 | 1,856 |
| Total other current assets | $ 18,311 | $ 16,356 |

**9. Property, Plant and Equipment, Net**

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

| | December 29, 2019 | June 30, 2019 |
|---|---|---|
| Land | $ 3,273 | $ 3,138 |
| Land improvements | 15,511 | 15,249 |
| Buildings and improvements | 161,388 | 161,566 |
| Assets under finance leases | 33,025 | 31,897 |
| Machinery and equipment | 607,166 | 603,950 |
| Computers, software and office equipment | 22,602 | 23,011 |
| Transportation equipment | 5,927 | 5,809 |
| Construction in progress | 4,560 | 6,483 |
| Gross PP&E | 853,452 | 851,103 |
| Less: accumulated depreciation | (636,910) | (636,135) |
| Less: accumulated amortization – finance leases | (7,292) | (8,181) |
| Total PP&E, net | $ 209,250 | $ 206,787 |

Depreciation expense and repair and maintenance expenses were as follows:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 29, 2019 | December 30, 2018 | December 29, 2019 | December 30, 2018 |
| Depreciation expense | $ 5,649 | $ 5,261 | $ 11,059 | $ 10,924 |
| Repair and maintenance expenses | 4,848 | 4,987 | 9,322 | 10,847 |

**10. Accrued Expenses**

Accrued expenses consists of the following:

| | December 29, 2019 | June 30, 2019 |
|---|---|---|
| Payroll and fringe benefits | $ 8,044 | $ 9,775 |
| Deferred revenue | 3,518 | 516 |
| Severance | 1,015 | 2,058 |
| Other | 3,224 | 4,500 |
| Total accrued expenses | $ 15,801 | $ 16,849 |

## 11. Long-Term Debt

*Debt Obligations*

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

| | Scheduled Maturity Date | Weighted Average Interest Rate as of December 29, 2019 | Principal Amounts as of December 29, 2019 | Principal Amounts as of June 30, 2019 |
|---|---|---|---|---|
| ABL Revolver | December 2023 | 3.0% | $ 22,500 | $ 19,400 |
| ABL Term Loan (1) | December 2023 | 3.1% | 92,500 | 97,500 |
| Finance lease obligations | (2) | 3.6% | 14,332 | 11,118 |
| Total debt | | | 129,332 | 128,018 |
| Current ABL Term Loan | | | (10,000) | (10,000) |
| Current portion of finance lease obligations | | | (4,760) | (5,519) |
| Unamortized debt issuance costs | | | (834) | (958) |
| Total long-term debt | | | $ 113,738 | $ 111,541 |

(1) Includes the effects of interest rate swaps.
(2) Scheduled maturity dates for finance lease obligations range from March 2020 to November 2027.

*ABL Facility*

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

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

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 2020, the following four fiscal years and thereafter:

| | Fiscal 2020 | Fiscal 2021 | Fiscal 2022 | Fiscal 2023 | Fiscal 2024 | Thereafter |
|---|---|---|---|---|---|---|
| ABL Revolver | $ — | $ — | $ — | $ — | $ 22,500 | $ — |
| ABL Term Loan | 5,000 | 10,000 | 10,000 | 10,000 | 57,500 | — |
| Finance lease obligations | 2,951 | 3,563 | 3,388 | 1,046 | 1,130 | 2,254 |
| Total | $ 7,951 | $ 13,563 | $ 13,388 | $ 11,046 | $ 81,130 | $ 2,254 |

## 12. Other Long-Term Liabilities

Other long-term liabilities consists of the following:

| | December 29, 2019 | June 30, 2019 |
|---|---|---|
| Supplemental post-employment plan | $ 2,769 | $ 2,695 |
| Uncertain tax positions | 1,083 | 1,043 |
| Interest rate swaps | 685 | 647 |
| Other | 1,585 | 1,800 |
| Total other long-term liabilities | $ 6,122 | $ 6,185 |

## 13. Income Taxes

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 29, 2019 | December 30, 2018 | December 29, 2019 | December 30, 2018 |
| Provision (benefit) for income taxes | $ 507 | $ (2,288) | $ 1,228 | $ 536 |
| Effective tax rate | 55.3% | 204.8% | 23.0% | 15.2% |

*Income Tax Expense*

UNIFI's provision for income taxes for the six months ended December 29, 2019 and December 30, 2018 was calculated by applying an estimate of the annual effective tax rate for the full fiscal year to year-to-date income. Tax effects of significant and unusual, or infrequently occurring, items are excluded from the estimated annual effective tax rate calculation and recognized in the interim period in which they occur.

The effective tax rate for the three months ended December 29, 2019 was higher than the U.S. federal statutory rate primarily due to U.S. tax on Global Intangible Low-Tax Income ("GILTI"), losses in tax jurisdictions for which no tax benefit could be recognized, foreign withholding taxes, and lower-than-expected income before income taxes. These rate impacts were partially offset by the use of foreign tax credits generated in both current and prior tax years. The effective tax rate for the six months ended December 29, 2019 was higher than the U.S. federal statutory rate primarily due to U.S. tax on GILTI, losses in tax jurisdictions for which no tax benefit could be recognized, and foreign withholding taxes. These rate impacts were partially offset by the use of foreign tax credits generated in both current and prior tax years.

The effective tax rate for the three months ended December 30, 2018 was higher than the U.S. federal statutory rate primarily due to the benefits of tax credits related to prior years, which exceed the loss before income taxes. These benefits were partially offset by earnings taxed at higher rates in foreign jurisdictions, losses in tax jurisdictions for which no tax benefit could be recognized, U.S. tax on GILTI, and non-deductible executive compensation. The effective tax rate for the six months ended December 30, 2018 was lower than the U.S. federal statutory rate primarily due to the benefits of tax credits related to prior years. These benefits were partially offset by earnings taxed at higher rates in foreign jurisdictions, losses in tax jurisdictions for which no tax benefit could be recognized, U.S. tax on GILTI, and non-deductible executive compensation.

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.

## 14. Shareholders' Equity

Shareholders' equity for the three months ended December 29, 2019 was as follows:

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at September 29, 2019 | 18,490 | $ 1,849 | $ 59,663 | $ 378,380 | $ (49,885) | $ 390,007 |
| Options exercised | — | — | — | — | — | — |
| Conversion of restricted stock units | 16 | 2 | (2) | — | — | — |
| Stock-based compensation | 4 | 1 | 1,581 | — | — | 1,582 |
| Common stock withheld in satisfaction of tax withholding obligations under net share settle transactions | (5) | (1) | (55) | — | — | (56) |
| Other comprehensive income, net of tax | — | — | — | — | 3,537 | 3,537 |
| Net income | — | — | — | 409 | — | 409 |
| Balance at December 29, 2019 | 18,505 | $ 1,851 | $ 61,187 | $ 378,789 | $ (46,348) | $ 395,479 |

Shareholders' equity for the six months ended December 29, 2019 was as follows:

| | 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 | 34 | 4 | (4) | — | — | — |
| Stock-based compensation | 4 | 1 | 1,702 | — | — | 1,703 |
| Common stock withheld in satisfaction of tax withholding obligations under net share settle transactions | (5) | (1) | (99) | — | — | (100) |
| Other comprehensive loss, net of tax | — | — | — | — | (3,119) | (3,119) |
| Net income | — | — | — | 4,121 | — | 4,121 |
| Balance at December 29, 2019 | 18,505 | $ 1,851 | $ 61,187 | $ 378,789 | $ (46,348) | $ 395,479 |

Shareholders' equity for the three months ended December 30, 2018 was as follows:

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at September 30, 2018 | 18,380 | $ 1,838 | $ 57,706 | $ 374,024 | $ (43,455) | $ 390,113 |
| Conversion of restricted stock units | 3 | — | — | — | — | — |
| Stock-based compensation | — | — | 1,913 | — | — | 1,913 |
| Other comprehensive income, net of tax | — | — | — | — | 730 | 730 |
| Net income | — | — | — | 1,171 | — | 1,171 |
| Balance at December 30, 2018 | 18,383 | $ 1,838 | $ 59,619 | $ 375,195 | $ (42,725) | $ 393,927 |

Shareholders' equity for the six months ended December 30, 2018 was as follows:

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at June 24, 2018 | 18,353 | $ 1,835 | $ 56,726 | $ 371,753 | $ (40,533) | $ 389,781 |
| Options exercised | 16 | 2 | 242 | — | — | 244 |
| Conversion of restricted stock units | 17 | 1 | (1) | — | — | — |
| Stock-based compensation | 1 | — | 2,785 | — | — | 2,785 |
| Common stock withheld in satisfaction of tax withholding obligations under net share settle transactions | (4) | — | (133) | — | — | (133) |
| Other comprehensive loss, net of tax | — | — | — | — | (2,192) | (2,192) |
| Adoption of the new revenue recognition guidance | — | — | — | 459 | — | 459 |
| Net income | — | — | — | 2,983 | — | 2,983 |
| Balance at December 30, 2018 | 18,383 | $ 1,838 | $ 59,619 | $ 375,195 | $ (42,725) | $ 393,927 |

No dividends were paid during the six months ended December 29, 2019 or in the two most recently completed fiscal years.

***Share Repurchase Program***

On April 23, 2014, UNIFI announced that its Board of Directors (the "Board") had approved a share repurchase program (the "2014 SRP") under which UNIFI was authorized to acquire up to $50,000 of its common stock. Through October 31, 2018 (the date the 2014 SRP was terminated, as noted below), UNIFI had repurchased a total of 806 shares, at an average price of $27.79 (for a total of $22,409, inclusive of commission costs) pursuant to the 2014 SRP.

On October 31, 2018, UNIFI announced that the Board had terminated the 2014 SRP and approved a new 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 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.

UNIFI made no repurchases of its shares of common stock during the six months ended December 29, 2019. As of December 29, 2019, $50,000 remained available for repurchase under the 2018 SRP.

## 15. Stock-Based Compensation

On October 23, 2013, UNIFI's shareholders approved the Unifi, Inc. 2013 Incentive Compensation Plan (the "2013 Plan"). The 2013 Plan replaced the 2008 Unifi, Inc. Long-Term Incentive Plan (the "2008 LTIP").

The 2013 Plan expired in accordance with its terms on October 24, 2018, and the Unifi, Inc. Amended and Restated 2013 Incentive Compensation Plan (the "Amended 2013 Plan") became effective on that same day, upon approval by shareholders at UNIFI's annual meeting of shareholders held on October 31, 2018. The Amended 2013 Plan increased the number of shares available for future issuance pursuant to awards granted under the Amended 2013 Plan to 1,250 (subject to certain increases in the event outstanding awards issued under the Amended 2013 Plan terminate unexercised) and removed provisions no longer applicable due to the recent changes to Section 162(m) of the Internal Revenue Code of 1986, as amended. The material terms and provisions of the Amended 2013 Plan are otherwise similar to those of the 2013 Plan. No additional awards can be granted under the 2013 Plan or the 2008 LTIP; however, awards outstanding remain subject to each plan's respective provisions.

The following table provides information as of December 29, 2019 with respect to the number of securities remaining available for future issuance under the Amended 2013 Plan:

| | |
|---|---|
| Authorized under the Amended 2013 Plan | 1,250 |
| Plus: Awards expired, forfeited or otherwise terminated unexercised | 153 |
| Less: Awards granted to employees | (425) |
| Less: Awards granted to non-employee directors | (117) |
| Available for issuance under the Amended 2013 Plan | 861 |

Stock-based compensation granted or issued was as follows:

| | For the Six Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| Stock options | 83 | 188 |
| Restricted stock units | 77 | 69 |
| Vested share units | 24 | 47 |
| Common stock | 4 | 1 |

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

UNIFI may use derivative financial instruments such as foreign currency forward contracts or interest rate swaps to reduce its ongoing business exposures to fluctuations in foreign currency exchange rates or interest rates. UNIFI 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 Six Months Ended | |
|---|---|---|---|---|
| | December 29, 2019 | December 30, 2018 | December 29, 2019 | December 30, 2018 |
| Interest expense | $ 1,101 | $ 1,355 | $ 2,358 | $ 2,822 |
| (Increase) decrease in fair value of interest rate swaps | (289) | 1,173 | 39 | 944 |
| Impact of interest rate swaps on interest expense | 15 | (71) | (48) | (106) |

For the six months ended December 29, 2019 and December 30, 2018, there were no significant changes to UNIFI's assets and liabilities measured at fair value, and there were no transfers into or out of the levels of the fair value hierarchy.

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

## 17. 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 30, 2019 | $ (42,729) | $ (500) | $ (43,229) |
| Other comprehensive loss | (3,080) | (39) | (3,119) |
| Balance at December 29, 2019 | $ (45,809) | $ (539) | $ (46,348) |

A summary of the after-tax effects of the components of other comprehensive loss, net for the three-month and six-month periods ended December 29, 2019 and December 30, 2018 is included in the accompanying condensed consolidated statements of comprehensive loss.

## 18. Earnings Per Share

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 29, 2019 | December 30, 2018 | December 29, 2019 | December 30, 2018 |
| Net income | $ 409 | $ 1,171 | $ 4,121 | $ 2,983 |
| Basic weighted average shares | 18,499 | 18,382 | 18,490 | 18,374 |
| Net potential common share equivalents | 273 | 323 | 255 | 327 |
| Diluted weighted average shares | 18,772 | 18,705 | 18,745 | 18,701 |
| Excluded from diluted weighted average shares: | | | | |
| Anti-dilutive common share equivalents | 362 | 498 | 373 | 500 |

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.

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

UNIFI currently maintains investments in three entities classified as unconsolidated affiliates: PAL; U.N.F. Industries, Ltd. ("UNF"); and UNF America LLC ("UNFA"). As of December 29, 2019, UNIFI's investment in PAL was $100,085 and UNIFI's combined investments in UNF and UNFA were $2,176, each of which is reflected within investments in unconsolidated affiliates in the accompanying condensed consolidated balance sheets.

*Parkdale America, LLC*

PAL is a limited liability company treated as a partnership for income tax reporting purposes. UNIFI accounts for its investment in PAL using the equity method of accounting. PAL is subject to price risk related to anticipated fixed-price yarn sales. To protect the gross margin of these sales, PAL may enter into cotton futures to manage changes in raw material prices. The derivative instruments used are listed and traded on an exchange and are valued using quoted prices classified within Level 1 of the fair value hierarchy. As of December 29, 2019, PAL had no futures contracts designated as cash flow hedges.

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

| | |
|---|---|
| Underlying equity as of December 29, 2019 | $ 118,176 |
| Initial excess capital contributions | 53,363 |
| Impairment charge recorded by UNIFI in fiscal 2007 | (74,106) |
| Anti-trust lawsuit against PAL in which UNIFI did not participate | 2,652 |
| Investment as of December 29, 2019 | $ 100,085 |

*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 December 29, 2019, UNIFI's open purchase orders related to this supply agreement were $2,240.

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

| | For the Six Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| UNF | $ 1,209 | $ 1,006 |
| UNFA | 8,582 | 12,558 |
| Total | $ 9,791 | $ 13,564 |

As of December 29, 2019 and June 30, 2019, UNIFI had combined accounts payable due to UNF and UNFA of $1,586 and $1,728, respectively.

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

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

| | As of December 29, 2019 | | | As of June 30, 2019 | | |
|---|---|---|---|---|---|---|
| | PAL | Other | Total | PAL | Other | Total |
| Current assets | $ 262,412 | $ 7,118 | $ 269,530 | $ 299,610 | $ 7,218 | $ 306,828 |
| Non-current assets | 157,876 | 606 | 158,482 | 158,304 | 696 | 159,000 |
| Current liabilities | 69,152 | 3,373 | 72,525 | 70,875 | 4,069 | 74,944 |
| Non-current liabilities | 3,562 | — | 3,562 | 3,252 | — | 3,252 |
| Shareholders' equity and capital accounts | 347,574 | 4,351 | 351,925 | 383,787 | 3,845 | 387,632 |
| | | | | | | |
| UNIFI's portion of undistributed earnings | 30,894 | 1,227 | 32,121 | 43,343 | 821 | 44,164 |

| | For the Three Months Ended December 29, 2019 | | | For the Three Months Ended December 30, 2018 | | |
|---|---|---|---|---|---|---|
| | PAL | Other | Total | PAL | Other | Total |
| Net sales | $ 161,648 | $ 5,475 | $ 167,123 | $ 191,150 | $ 7,274 | $ 198,424 |
| Gross (loss) profit | (186) | 812 | 626 | 5,695 | 1,484 | 7,179 |
| (Loss) income from operations | (5,026) | 377 | (4,649) | 1,163 | 1,039 | 2,202 |
| Net (loss) income | (2,463) | 383 | (2,080) | 2,241 | 1,115 | 3,356 |
| Depreciation and amortization | 11,393 | 43 | 11,436 | 10,817 | 47 | 10,864 |
| | | | | | | |
| Cash received by PAL under cotton rebate program | 3,463 | — | 3,463 | 3,402 | — | 3,402 |
| Earnings recognized by PAL for cotton rebate program | 2,766 | — | 2,766 | 3,035 | — | 3,035 |
| | | | | | | |
| Distributions received | — | — | — | 126 | — | 126 |

| | For the Six Months Ended December 29, 2019 | | | For the Six Months Ended December 30, 2018 | | |
|---|---|---|---|---|---|---|
| | PAL | Other | Total | PAL | Other | Total |
| Net sales | $ 360,815 | $ 10,136 | $ 370,951 | $ 401,652 | $ 13,039 | $ 414,691 |
| Gross profit | 885 | 1,353 | 2,238 | 10,203 | 2,438 | 12,641 |
| (Loss) income from operations | (8,301) | 489 | (7,812) | 1,795 | 1,551 | 3,346 |
| Net (loss) income | (5,918) | 507 | (5,411) | 2,192 | 1,641 | 3,833 |
| Depreciation and amortization | 22,024 | 90 | 22,114 | 21,291 | 95 | 21,386 |
| | | | | | | |
| Cash received by PAL under cotton rebate program | 7,156 | — | 7,156 | 5,720 | — | 5,720 |
| Earnings recognized by PAL for cotton rebate program | 6,354 | — | 6,354 | 6,249 | — | 6,249 |
| | | | | | | |
| Distributions received | 10,437 | — | 10,437 | 130 | 500 | 630 |

## 20. 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. UNIFI expects no active site remediation will be required and has no basis to determine any costs that may be associated with active remediation.

## 21. Related Party Transactions

For details regarding the nature of certain related party relationships, see Note 25, "Related Party Transactions," to the consolidated financial statements in the 2019 Form 10-K.

There were no related party receivables as of December 29, 2019 or June 30, 2019.

Related party payables consists of the following:

| | December 29, 2019 | June 30, 2019 |
|---|---|---|
| Salem Leasing Corporation (included within accounts payable) | $ 288 | $ 634 |
| Salem Leasing Corporation (operating lease obligations) | 1,709 | — |
| Salem Leasing Corporation (finance lease obligations) | 7,013 | 806 |
| Total related party payables | $ 9,010 | $ 1,440 |

Related party transactions in excess of $120 include:

| | | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|---|
| **Affiliated Entity** | **Transaction Type** | **December 29, 2019** | **December 30, 2018** | **December 29, 2019** | **December 30, 2018** |
| Salem Leasing Corporation | Transportation equipment costs and finance lease debt service | $ 1,108 | $ 1,019 | $ 2,116 | $ 2,040 |

## 22. Business Segment Information

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

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

- The operations within the Polyester Segment exhibit similar long-term economic characteristics and primarily sell into an economic trading zone covered by the North American Free Trade Agreement ("NAFTA") and the Dominican Republic—Central America Free Trade Agreement ("CAFTA-DR") (collectively, the regions comprising these economic trading zones are referred to as "NACA") to similar customers utilizing similar methods of distribution. These operations derive revenues primarily from 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 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 and hosiery 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.

- 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 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 sales offices in China and Sri Lanka.

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

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

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

The accounting policies for the segments are consistent with UNIFI's accounting policies. Intersegment sales are omitted from 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 December 29, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Polyester | Nylon | Brazil | Asia | All Other | Total |
| Net sales | $ 82,750 | $ 17,084 | $ 20,862 | $ 47,918 | $ 897 | $ 169,511 |
| Cost of sales | 76,090 | 17,038 | 17,432 | 42,401 | 885 | 153,846 |
| Gross profit | 6,660 | 46 | 3,430 | 5,517 | 12 | 15,665 |
| Segment depreciation expense | 4,183 | 503 | 357 | — | 124 | 5,167 |
| Segment Profit | $ 10,843 | $ 549 | $ 3,787 | $ 5,517 | $ 136 | $ 20,832 |

| | For the Three Months Ended December 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Polyester | Nylon | Brazil | Asia | All Other | Total |
| Net sales | $ 85,789 | $ 22,647 | $ 24,234 | $ 34,003 | $ 1,038 | $ 167,711 |
| Cost of sales | 82,477 | 20,615 | 19,825 | 29,679 | 959 | 153,555 |
| Gross profit | 3,312 | 2,032 | 4,409 | 4,324 | 79 | 14,156 |
| Segment depreciation expense | 3,937 | 499 | 367 | — | 68 | 4,871 |
| Segment Profit | $ 7,249 | $ 2,531 | $ 4,776 | $ 4,324 | $ 147 | $ 19,027 |

| | For the Six Months Ended December 29, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Polyester | Nylon | Brazil | Asia | All Other | Total |
| Net sales | $ 171,445 | $ 37,286 | $ 45,034 | $ 93,875 | $ 1,820 | $ 349,460 |
| Cost of sales | 156,990 | 36,062 | 37,445 | 84,076 | 1,779 | 316,352 |
| Gross profit | 14,455 | 1,224 | 7,589 | 9,799 | 41 | 33,108 |
| Segment depreciation expense | 8,224 | 994 | 732 | — | 163 | 10,113 |
| Segment Profit | $ 22,679 | $ 2,218 | $ 8,321 | $ 9,799 | $ 204 | $ 43,221 |

| | For the Six Months Ended December 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Polyester | Nylon | Brazil | Asia | All Other | Total |
| Net sales | $ 185,920 | $ 50,596 | $ 51,147 | $ 59,443 | $ 2,216 | $ 349,322 |
| Cost of sales | 174,807 | 46,420 | 40,320 | 51,587 | 2,013 | 315,147 |
| Gross profit | 11,113 | 4,176 | 10,827 | 7,856 | 203 | 34,175 |
| Segment depreciation expense | 8,189 | 1,060 | 726 | — | 143 | 10,118 |
| Segment Profit | $ 19,302 | $ 5,236 | $ 11,553 | $ 7,856 | $ 346 | $ 44,293 |

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 29, 2019 | December 30, 2018 | December 29, 2019 | December 30, 2018 |
| Polyester | $ 6,660 | $ 3,312 | $ 14,455 | $ 11,113 |
| Nylon | 46 | 2,032 | 1,224 | 4,176 |
| Brazil | 3,430 | 4,409 | 7,589 | 10,827 |
| Asia | 5,517 | 4,324 | 9,799 | 7,856 |
| All Other | 12 | 79 | 41 | 203 |
| Segment gross profit | 15,665 | 14,156 | 33,108 | 34,175 |
| Selling, general and administrative expenses | 12,508 | 14,822 | 23,488 | 29,233 |
| (Benefit) provision for bad debts | (258) | 32 | (249) | 163 |
| Other operating expense (income), net | 854 | 99 | 962 | (141) |
| Operating income (loss) | 2,561 | (797) | 8,907 | 4,920 |
| Interest income | (212) | (152) | (422) | (299) |
| Interest expense | 1,101 | 1,355 | 2,358 | 2,822 |
| Loss on extinguishment of debt | — | 131 | — | 131 |
| Equity in loss (earnings) of unconsolidated affiliates | 756 | (1,014) | 1,622 | (1,253) |
| Income (loss) before income taxes | $ 916 | $ (1,117) | $ 5,349 | $ 3,519 |

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

| | December 29, 2019 | June 30, 2019 |
|---|---|---|
| Polyester | $ 289,321 | $ 287,608 |
| Nylon | 51,888 | 57,055 |
| Brazil | 66,020 | 67,490 |
| Asia | 46,088 | 35,219 |
| Segment total assets | 453,317 | 447,372 |
| Other current assets | 12,359 | 10,327 |
| Other PP&E | 23,993 | 18,664 |
| Other non-current operating lease assets | 1,626 | — |
| Other non-current assets | 1,651 | 1,468 |
| Investments in unconsolidated affiliates | 102,261 | 114,320 |
| Total assets | $ 595,207 | $ 592,151 |

## 23. Supplemental Cash Flow Information

Cash payments for interest and taxes consist of the following:

| | For the Six Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| Interest, net of capitalized interest of $56 and $123, respectively | $ 2,357 | $ 2,876 |
| Income tax payments, net | 3,429 | 474 |

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 December 29, 2019 and June 30, 2019, $1,127 and $1,329, respectively, were included in accounts payable for unpaid capital expenditures. As of December 30, 2018 and June 24, 2018, $1,702 and $3,187, respectively, were included in accounts payable for unpaid capital expenditures.

Non-cash investing and financing activities related to leases have been disclosed in Note 4, “Leases.”

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

The following is management's discussion and analysis of certain significant factors that have affected UNIFI's operations, along with material changes in financial condition, during the periods included in the accompanying condensed consolidated financial statements. A reference to a "note" in this section refers to the accompanying notes to condensed consolidated financial statements. A reference to the "current period" refers to the three-month period ended December 29, 2019, while a reference to the "prior period" refers to the three-month period ended December 30, 2018. A reference to the "current six-month period" refers to the six-month period ended December 29, 2019, while a reference to the "prior six-month period" refers to the six-month period ended December 30, 2018. 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 six-month period and the prior six-month period consisted of 26 weeks and 27 weeks, respectively.

Our discussions in this Item 2 focus on our results during, or as of, the three months and six months ended December 29, 2019 and December 30, 2018, and, to the extent applicable, any material changes from the information discussed in the 2019 Form 10-K or other important intervening developments or information. These discussions should be read in conjunction with the 2019 Form 10-K for more detailed and background information about our business, operations and financial condition.

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

Discussion of unfavorable foreign currency translation is primarily associated with the weakening of the Brazilian Real ("BRL") and the Chinese Renminbi ("RMB") against the U.S. Dollar ("USD").

### Overview and Significant General Matters

UNIFI's business focuses on delivering products and solutions to customers and brand partners throughout the world, leveraging our internal manufacturing capabilities and an enhanced global supply chain that delivers a diverse range of synthetic and recycled fibers and polymers. This strategic and synergistic focus includes three supporting pillars: (1) engaging in strategic relationships with like-minded entities, (2) growing our existing portfolio of technologies and capabilities and (3) expanding our supply chain to best serve 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 Nylon Segment, the Brazil Segment and the Asia Segment – as well as certain ancillary operations that include for-hire transportation services, which comprise an All Other category. The ancillary operations classified within All Other are insignificant for all periods presented; therefore, UNIFI's discussion and analysis of those activities is generally limited to their impact on consolidated results, where appropriate. In discussion of its operating results in this report, UNIFI refers to its operations in the "NACA" region, which is the region comprised of the trade zones covered by NAFTA and CAFTA-DR.

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

- net sales for the current period increased $1,800, or 1.1%, to $169,511, compared to $167,711 for the prior period;
- net sales for the current six-month period were $349,460, compared to $349,322 for the prior six-month period;
- revenues from PVA products for the current period grew approximately 23% compared to the prior period and represented 57% of consolidated net sales for the current period compared to 47% for the prior period;
- gross margin was 9.2% for the current period, compared to 8.4% for the prior period, and was 9.5% for the current six-month period, compared to 9.8% for the prior six-month period;
- operating income (loss) was $2,561 for the current period, compared to ($797) for the prior period, and was $8,907 for the six-month period, compared to $4,920 for the prior six-month period; and
- diluted EPS was $0.02 for the current period, compared to $0.06 for the prior period, and was $0.22 for the current six-month period, compared to $0.16 for the prior six-month period.

During the current six-month period, (i) the Polyester Segment faced suppressed demand for certain yarns across the industrial, automotive and apparel sectors, (ii) the Nylon Segment experienced lower revenues and gross margin in connection with two customers shifting certain programs to overseas garment production, and (iii) the Brazil Segment experienced lower gross margin as market price declines in connection with declining raw material costs outpaced inventory turnover. Additionally, results from PAL were generally weaker in connection with higher operating costs and lower operating leverage.

However, UNIFI achieved favorable operating results and overall improvement compared to the prior six-month period, despite one less sales week in the NACA region. The improvement was primarily attributable to (i) a declining raw material cost environment that benefited our Polyester Segment and (ii) lower selling, general and administrative expenses ("SG&A") resulting from cost reduction efforts that began in the second half of fiscal 2019.

Additionally, UNIFI's operating cash flows and net debt (debt principal less cash and cash equivalents) improved significantly during the current six-month period as a result of (i) comparatively less cash invested in inventories, which was influenced by lower raw material costs, and (ii) $9,807 of increased distributions from equity affiliates.

UNIFI remains committed to pursuing relief from the competitive pressures that have resulted from the elevated levels of low-cost and subsidized polyester textured yarn entering the U.S. market from countries such as China and India. In connection with the anti-dumping and countervailing duties petitions we filed in October 2018, the U.S. Department of Commerce and the U.S. International Trade Commission have completed their investigations and have begun imposing associated final duties on imports, subsequent to preliminary duties that were in effect from April 2019 to December 2019. Accordingly, subject imports from China and India are being assessed combined antidumping and countervailing duty rates of 97% and higher and 18% and higher, respectively, in addition to normal course duties in effect. The positive developments in our pursuit of relief from low-cost and subsidized imports are critical steps in our efforts to compete against imported yarns that have flooded the U.S. market in recent years. UNIFI will continue to monitor whether polyester textured yarn from China or India is being shipped through third-party countries and then entering the U.S. market.

**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 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 before net interest expense, income tax expense and depreciation and amortization expense;
- Adjusted EBITDA, which represents EBITDA adjusted to exclude equity in loss of PAL, and, from time to time, certain other adjustments necessary to understand and compare the underlying results of UNIFI;
- 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 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. Equity in loss (earnings) of PAL is excluded from Adjusted EBITDA because such results do not reflect our operating performance.

Management uses Adjusted Working Capital as an indicator of UNIFI's production efficiency and ability to manage 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 December 29, 2019 Compared to Three Months Ended December 30, 2018**

***Consolidated Overview***

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

| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| | December 29, 2019 | | December 30, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 169,511 | 100.0 | $ 167,711 | 100.0 | 1.1 |
| Cost of sales | 153,846 | 90.8 | 153,555 | 91.6 | 0.2 |
| Gross profit | 15,665 | 9.2 | 14,156 | 8.4 | 10.7 |
| SG&A | 12,508 | 7.4 | 14,822 | 8.8 | (15.6) |
| (Benefit) provision for bad debts | (258) | (0.2) | 32 | — | nm |
| Other operating expense, net | 854 | 0.5 | 99 | 0.1 | nm |
| Operating income (loss) | 2,561 | 1.5 | (797) | (0.5) | nm |
| Interest expense, net | 889 | 0.5 | 1,203 | 0.7 | (26.1) |
| Loss on extinguishment of debt | — | — | 131 | 0.1 | (100.0) |
| Equity in loss (earnings) of unconsolidated affiliates | 756 | 0.5 | (1,014) | (0.6) | (174.6) |
| Income (loss) before income taxes | 916 | 0.5 | (1,117) | (0.7) | (182.0) |
| Provision (benefit) for income taxes | 507 | 0.3 | (2,288) | (1.4) | (122.2) |
| Net income | $ 409 | 0.2 | $ 1,171 | 0.7 | (65.1) |

nm – Not meaningful

***Net Sales***

Consolidated net sales for the current period increased by $1,800, or 1.1%, as compared to the prior period, primarily due to the sales growth of PVA products, especially in the Asia Segment, partially offset by suppressed demand for (i) certain polyester yarns, particularly in the industrial and automotive sectors and (ii) nylon yarns, in addition to unfavorable currency translation.

Consolidated sales volumes increased 18.2%, primarily attributable to continued sales growth of REPREVE®-branded products, primarily Chip and staple fiber in the Asia Segment, partially offset by lower yarn sales in the Nylon Segment. Sales in the Asia Segment continued to expand as our REPREVE® portfolio resonates with our brand partners that are focused on sustainable solutions. Lower Nylon Segment sales primarily reflect the loss of certain customer programs to overseas production as well as lower demand from other customers and programs.

We believe the softness in the domestic polyester environment and competition from imports continue to be challenges for the textile supply chain and we have recently taken action in the form of trade petitions to help alleviate such competitive pressures. Our Nylon Segment results reflect (i) two customers shifting certain programs to overseas garment production during the six months ended December 29, 2019 and (ii) the current global trend of declining demand for nylon socks, ladies' hosiery and intimate apparel.

Consolidated average sales prices decreased 17.1%, primarily attributable to (i) significant growth of Chip and staple fiber in the Asia Segment, which have lower average sales prices, (ii) a decline in higher-priced nylon product sales and (iii) sales price declines associated with polyester raw material cost changes and global pricing pressures.

PVA products at the end of the current period comprised 57% of consolidated net sales, up from 47% for fiscal 2019 and from 47% at the end of the prior period. Even with the relative growth in the proportion of PVA sales as a percentage of overall sales, customers may choose between various PVA products, some of which carry higher margins than others. Accordingly, growth in PVA sales does not necessarily translate into higher margins or increased profitability on a consolidated basis.

***Gross Profit***

Gross profit for the current period increased by $1,509, or 10.7%, as compared to the prior period.

For the Polyester Segment, gross profit improved, primarily due to (i) an improved conversion margin in connection with the comparative impact of (a) a declining raw material cost environment during the current period and (b) an unfavorable raw material cost environment in the prior period and (ii) better fixed cost absorption in the current period due to improved facility utilization. For the Asia Segment, gross profit increased as net sales increased but was partially offset by a greater mix of lower-priced product sales.

For the Brazil Segment, gross profit decreased primarily due to (i) market price declines (in connection with declining raw material costs) outpacing inventory turnover and (ii) unfavorable foreign currency translation effects as the BRL weakened against the USD during the current period. For the Nylon Segment, gross profit decreased primarily due to weaker fixed cost absorption in connection with two customers shifting certain programs to overseas garment production during the six months ended December 29, 2019.

***SG&A***

The changes in SG&A were as follows:

| | | |
|---|---|---|
| SG&A for the prior period | $ | 14,822 |
| Decrease in compensation expenses | | (640) |
| Other net decreases | | (1,674) |
| SG&A for the current period | $ | 12,508 |

SG&A decreased from the prior period to the current period primarily as a result of (i) lower compensation expenses in connection with fewer executive officers in the current period as compared to the prior period and (ii) cost reduction efforts undertaken during the fourth quarter of fiscal 2019.

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

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

***Other Operating Expense, Net***

Other operating expense, net primarily reflects costs related to the wind-down plan of our Sri Lankan subsidiary and foreign currency transaction losses recorded in the current period, compared to severance expenses and foreign currency transaction gains recorded in the prior period.

***Interest Expense, Net***

The components of consolidated interest expense, net were as follows:

| | For the Three Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| Interest and fees on the ABL Facility | $ 937 | $ 1,148 |
| Other interest | 127 | 187 |
| Subtotal of interest on debt obligations | 1,064 | 1,335 |
| Other components of interest expense | 37 | 20 |
| Total interest expense | 1,101 | 1,355 |
| Interest income | (212) | (152) |
| Interest expense, net | $ 889 | $ 1,203 |

Interest expense, net decreased from the prior period to the current period, primarily as a result of lower market interest rates on our variable-rate debt and a more favorable pricing structure on the ABL Facility in connection with the 2018 Amendment.

***Equity in Loss (Earnings) of Unconsolidated Affiliates***

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

| | For the Three Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| Loss (earnings) from PAL | $ 837 | $ (762) |
| Earnings from nylon joint ventures | (81) | (252) |
| Total equity in loss (earnings) of unconsolidated affiliates | $ 756 | $ (1,014) |
| | | |
| As a percentage of consolidated income before income taxes | (82.5)% | 90.8% |

The performance decline for unconsolidated affiliates was primarily attributable to lower operating leverage and, particularly for PAL, comparably higher costs.

***Income Taxes***

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

| | For the Three Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| Provision (benefit) for income taxes | $ 507 | $ (2,288) |
| Effective tax rate | 55.3% | 204.8% |

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

The significant change in the effective tax rate from the prior period to the current period is primarily attributable to (i) a $2,045 tax credit benefiting the prior period and (ii) higher income before income taxes in the current period.

***Net Income***

Net income for the current period was $409, or $0.02 per share, compared to $1,171, or $0.06 per share, for the prior period. The decrease was primarily attributable to weaker results from PAL and a less favorable effective tax rate in the current period, partially offset by lower SG&A and higher gross profit.

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

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

| | For the Three Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| Net income | $ 409 | $ 1,171 |
| Interest expense, net | 889 | 1,203 |
| Provision (benefit) for income taxes | 507 | (2,288) |
| Depreciation and amortization expense (1) | 5,863 | 5,532 |
| EBITDA | 7,668 | 5,618 |
| | | |
| Equity in loss (earnings) of PAL | 837 | (762) |
| EBITDA excluding PAL | 8,505 | 4,856 |
| | | |
| Facility shutdown costs (2) | 383 | — |
| Adjusted EBITDA | $ 8,888 | $ 4,856 |

(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 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 EBITDA increased from the prior period to the current period, primarily as a result of lower SG&A and 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 period. As noted in the 2019 Form 10-K, segment gross profit includes the effect of certain technology-related expenses charged by the Polyester Segment to the Asia Segment. Such amounts are recorded as a benefit to cost of sales for the Polyester Segment and a charge to cost of sales for the Asia Segment, thereby impacting gross profit for each segment. The prior period segment results have been revised to reflect comparability for this change.

***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 | | | | |
|---|---|---|---|---|---|
| | December 29, 2019 | | December 30, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 82,750 | 100.0 | $ 85,789 | 100.0 | (3.5) |
| Cost of sales | 76,090 | 92.0 | 82,477 | 96.1 | (7.7) |
| Gross profit | 6,660 | 8.0 | 3,312 | 3.9 | 101.1 |
| Depreciation expense | 4,183 | 5.1 | 3,937 | 4.5 | 6.2 |
| Segment Profit | $ 10,843 | 13.1 | $ 7,249 | 8.4 | 49.6 |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 48.8% | | 51.2% | | |
| Segment Profit as a percentage of consolidated amounts | 52.0% | | 38.1% | | |

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

| | |
|---|---|
| Net sales for the prior period | $ 85,789 |
| Net change in average selling price and sales mix | (3,277) |
| Increase in underlying sales volumes | 238 |
| Net sales for the current period | $ 82,750 |

The decrease in net sales for the Polyester Segment from the prior period to the current period was primarily attributable to lower average selling prices in connection with lower raw material costs and moderate competitive pricing pressures. Textured yarn volume increases are recapturing market share from our recent trade actions, but such volume increases were partially offset by weaker demand from certain customers in the industrial, automotive and apparel sectors.

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

| | | |
|---|---|---|
| Segment Profit for the prior period | $ | 7,249 |
| Net increase in underlying margins | | 3,057 |
| Increase in technologies expense charged to Asia Segment | | 517 |
| Increase in underlying sales volumes | | 20 |
| Segment Profit for the current period | $ | 10,843 |

The increase in Segment Profit for the Polyester Segment from the prior period to the current period was primarily attributable to (i) an improved conversion margin in connection with the comparative impact of (a) a declining raw material cost environment during the current period and (b) an unfavorable raw material cost environment in the prior period and (ii) better fixed cost absorption in the current period due to improved facility utilization.

***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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | December 29, 2019 | | | December 30, 2018 | | | |
| | | | % of Net Sales | | | % of Net Sales | % Change |
| Net sales | $ | 17,084 | 100.0 | $ | 22,647 | 100.0 | (24.6) |
| Cost of sales | | 17,038 | 99.7 | | 20,615 | 91.0 | (17.4) |
| Gross profit | | 46 | 0.3 | | 2,032 | 9.0 | (97.7) |
| Depreciation expense | | 503 | 2.9 | | 499 | 2.2 | 0.8 |
| Segment Profit | $ | 549 | 3.2 | $ | 2,531 | 11.2 | (78.3) |
| | | | | | | | |
| Segment net sales as a percentage of consolidated amounts | | 10.1% | | | 13.5% | | |
| Segment Profit as a percentage of consolidated amounts | | 2.6% | | | 13.3% | | |

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

| | | |
|---|---|---|
| Net sales for the prior period | $ | 22,647 |
| Decrease in underlying sales volumes | | (4,769) |
| Net change in average selling price and sales mix | | (794) |
| Net sales for the current period | $ | 17,084 |

The decrease in net sales for the Nylon Segment from the prior period to the current period was primarily attributable to (i) two customers shifting certain programs to overseas garment production during the six months ended December 29, 2019 and (ii) continued demand declines in certain nylon product categories.

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

| | | |
|---|---|---|
| Segment Profit for the prior period | $ | 2,531 |
| Net decrease in underlying margins | | (1,449) |
| Decrease in underlying sales volumes | | (533) |
| Segment Profit for the current period | $ | 549 |

The decrease in Segment Profit for the Nylon Segment from the prior period to the current period was primarily attributable to weaker fixed cost absorption due to lower sales volumes, as described in the net sales analysis above.

***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 | | | | |
|---|---|---|---|---|---|
| | December 29, 2019 | | December 30, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 20,862 | 100.0 | $ 24,234 | 100.0 | (13.9) |
| Cost of sales | 17,432 | 83.6 | 19,825 | 81.8 | (12.1) |
| Gross profit | 3,430 | 16.4 | 4,409 | 18.2 | (22.2) |
| Depreciation expense | 357 | 1.8 | 367 | 1.5 | (2.7) |
| Segment Profit | $ 3,787 | 18.2 | $ 4,776 | 19.7 | (20.7) |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 12.3% | | 14.4% | | |
| Segment Profit as a percentage of consolidated amounts | 18.2% | | 25.1% | | |

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

| | |
|---|---|
| Net sales for the prior period | $ 24,234 |
| Decrease in average selling price | (2,248) |
| Unfavorable foreign currency translation effects | (1,838) |
| Increase in sales volumes | 714 |
| Net sales for the current period | $ 20,862 |

The decrease in net sales for the Brazil Segment from the prior period to the current period was primarily attributable to lower selling prices due to increased competition from imports, lower raw material costs, and unfavorable foreign currency translation effects.

The BRL weighted average exchange rate was 4.12 BRL/USD and 3.81 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 | $ 4,776 |
| Decrease in underlying margins | (757) |
| Unfavorable foreign currency translation effects | (372) |
| Increase in sales volumes | 140 |
| Segment Profit for the current period | $ 3,787 |

The decrease in Segment Profit for the Brazil Segment from the prior period to the current period was primarily attributable to competitive pricing pressures during a declining raw material cost environment, along with unfavorable foreign currency translation effects. For the Brazil Segment, declining raw material costs place downward market pressure on selling prices and, since the Brazil Segment's supply chain is generally longer, average inventory costs decline slower than selling prices.

***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 | | | | |
|---|---|---|---|---|---|
| | December 29, 2019 | | December 30, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 47,918 | 100.0 | $ 34,003 | 100.0 | 40.9 |
| Cost of sales | 42,401 | 88.5 | 29,679 | 87.3 | 42.9 |
| Gross profit | 5,517 | 11.5 | 4,324 | 12.7 | 27.6 |
| Depreciation expense | — | — | — | — | — |
| Segment Profit | $ 5,517 | 11.5 | $ 4,324 | 12.7 | 27.6 |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 28.3% | | 20.3% | | |
| Segment Profit as a percentage of consolidated amounts | 26.5% | | 22.7% | | |

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

| | | |
|---|---|---|
| Net sales for the prior period | $ | 34,003 |
| Increase in sales volumes of Chip and staple fiber | | 12,011 |
| Increase in sales volumes of certain other PVA products | | 4,387 |
| Change in average selling price and sales mix | | (1,864) |
| Unfavorable foreign currency translation effects | | (619) |
| Net sales for the current period | $ | 47,918 |

The increase in net sales for the Asia Segment from the prior period to the current period was primarily attributable to higher sales volumes of REPREVE®-branded products, primarily Chip and staple fiber.

The RMB weighted average exchange rate was 7.04 RMB/USD and 6.92 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 | $ | 4,324 |
| Increase in sales volumes of Chip and staple fiber | | 1,608 |
| Increase in sales volumes of certain other PVA products | | 634 |
| Decrease in underlying margins | | (429) |
| Increase in technologies expense charged by Polyester Segment | | (517) |
| Unfavorable foreign currency translation effects | | (103) |
| Segment Profit for the current period | $ | 5,517 |

The increase in Segment Profit for the Asia Segment from the prior period to the current period was primarily attributable to the increase in sales volumes described in the net sales analysis above.

**Review of Results of Operations**

**Six Months Ended December 29, 2019 Compared to Six Months Ended December 30, 2018**

***Consolidated Overview***

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

| | For the Six Months Ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | December 29, 2019 | | | December 30, 2018 | | | |
| | | | % of Net Sales | | | % of Net Sales | % Change |
| Net sales | $ | 349,460 | 100.0 | $ | 349,322 | 100.0 | 0.0 |
| Cost of sales | | 316,352 | 90.5 | | 315,147 | 90.2 | 0.4 |
| Gross profit | | 33,108 | 9.5 | | 34,175 | 9.8 | (3.1) |
| SG&A | | 23,488 | 6.7 | | 29,233 | 8.4 | (19.7) |
| (Benefit) provision for bad debts | | (249) | (0.1) | | 163 | — | nm |
| Other operating expense (income), net | | 962 | 0.3 | | (141) | — | nm |
| Operating income | | 8,907 | 2.6 | | 4,920 | 1.4 | 81.0 |
| Interest expense, net | | 1,936 | 0.6 | | 2,523 | 0.7 | (23.3) |
| Loss on extinguishment of debt | | — | — | | 131 | — | (100.0) |
| Equity in loss (earnings) of unconsolidated affiliates | | 1,622 | 0.5 | | (1,253) | (0.4) | (229.4) |
| Income before income taxes | | 5,349 | 1.5 | | 3,519 | 1.1 | 52.0 |
| Provision for income taxes | | 1,228 | 0.3 | | 536 | 0.2 | 129.1 |
| Net income | $ | 4,121 | 1.2 | $ | 2,983 | 0.9 | 38.1 |

nm – Not meaningful

***Net Sales***

Consolidated net sales for the current six-month period were essentially flat in comparison to the prior six-month period, as the impacts of (i) one fewer week of sales in the current six-month period for our NACA operations, (ii) lower nylon sales volumes, (iii) lower average selling prices and (iv) unfavorable foreign currency translation were offset by the sales growth of PVA products.

Consolidated sales volumes increased 17.1%, primarily attributable to continued sales growth of REPREVE®-branded products, primarily Chip and staple fiber in the Asia Segment, partially offset by (i) one fewer week of sales in the current six-month period for our NACA operations and (ii) softer yarn sales in the Nylon Segment. Sales in the Asia Segment continued to expand as our REPREVE® portfolio resonates with our brand partners that are focused on sustainable solutions. Lower Nylon Segment sales primarily reflect the loss of certain customer programs to overseas production during the current six-month period.

We believe the softness in the domestic polyester environment and competition from imports continue to be challenges for the textile supply chain and we have recently taken action in the form of trade petitions to help alleviate such competitive pressures. Our Nylon Segment results reflect (i) two customers shifting certain programs to overseas garment production during the six months ended December 29, 2019 and (ii) the current global trend of declining demand for nylon socks, ladies' hosiery and intimate apparel.

Consolidated average sales prices decreased 17.1%, primarily attributable to (i) growth of Chip and staple fiber in the Asia Segment, which have lower average sales prices, (ii) a decline in higher-priced nylon product sales and (iii) sales price declines associated with polyester raw material cost changes.

PVA products at the end of the current six-month period comprised 55% of consolidated net sales, up from 47% for fiscal 2019 and from 45% at the end of the prior six-month period. Even with the relative growth in the proportion of PVA sales as a percentage of overall sales, customers may choose between various PVA products, some of which carry higher margins than others. Accordingly, growth in PVA sales does not necessarily translate into higher margins or increased profitability on a consolidated basis.

***Gross Profit***

Gross profit for the current six-month period decreased by $1,067, or 3.1%, as compared to the prior six-month period.

For the Polyester Segment, gross profit improved, primarily due to (i) an improved conversion margin in connection with the comparative impact of (a) a declining raw material cost environment during the current six-month period and (b) an unfavorable raw material cost environment in the prior six-month period and (ii) better fixed cost absorption in the current six-month period due to improved facility utilization. For the Asia Segment, gross profit increased as net sales increased but was partially offset by a greater mix of lower-priced product sales.

For the Brazil Segment, gross profit decreased primarily due to (i) market price declines (in connection with declining raw material costs) outpacing inventory turnover and (ii) unfavorable foreign currency translation effects as the BRL weakened against the USD. For the Nylon Segment, gross profit decreased primarily due to weaker fixed cost absorption in connection with two customers shifting certain programs to overseas garment production during the six months ended December 29, 2019.

***SG&A***

The changes in SG&A were as follows:

| | | |
|---|---|---|
| SG&A expenses for the prior six-month period | $ | 29,233 |
| Decrease in compensation expenses | | (2,240) |
| Other net decreases | | (2,664) |
| Impact of an additional week in fiscal 2019 | | (841) |
| SG&A expenses for the current six-month period | $ | 23,488 |

SG&A decreased from the prior six-month period to the current six-month period primarily as a result of (i) lower compensation expenses in connection with fewer executive officers in the current six-month period as compared to the prior six-month period and (ii) cost reduction efforts undertaken during the fourth quarter of fiscal 2019.

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

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

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

Other operating expense (income), net primarily reflects severance expenses recorded in both the current six-month period and prior six-month period, exit costs related to the wind-down plan of our Sri Lankan subsidiary in the current six-month period, and foreign currency transaction gains recorded in the prior six-month period.

***Interest Expense, Net***

The components of consolidated interest expense, net were as follows:

| | For the Six Months Ended | | | |
|---|---|---|---|---|
| | December 29, 2019 | | December 30, 2018 | |
| Interest and fees on the ABL Facility | $ | 2,049 | $ | 2,394 |
| Other interest | | 240 | | 380 |
| Subtotal of interest on debt obligations | | 2,289 | | 2,774 |
| Other components of interest expense | | 69 | | 48 |
| Total interest expense | | 2,358 | | 2,822 |
| Interest income | | (422) | | (299) |
| Interest expense, net | $ | 1,936 | $ | 2,523 |

Interest expense, net decreased from the prior six-month period to the current six-month period, primarily as a result of lower market interest rates on our variable-rate debt and a more favorable pricing structure on the ABL Facility in connection with the 2018 Amendment.

***Equity in Loss (Earnings) of Unconsolidated Affiliates***

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

| | For the Six Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| Loss (earnings) from PAL | $ 2,012 | $ (745) |
| Earnings from nylon joint ventures | (390) | (508) |
| Total equity in loss (earnings) of unconsolidated affiliates | $ 1,622 | $ (1,253) |
| | | |
| As a percentage of consolidated income before income taxes | (30.3)% | 35.6% |

The performance decline for unconsolidated affiliates was primarily attributable to lower operating leverage and, particularly for PAL, comparably higher costs.

***Income Taxes***

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

| | For the Six Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| Provision for income taxes | $ 1,228 | $ 536 |
| Effective tax rate | 23.0% | 15.2% |

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

The effective tax rate for the prior six-month period primarily benefited from a $2,045 tax credit, but was unfavorably impacted by weak U.S. profitability. The effective tax rate for the current six-month period benefited from greater foreign tax credit utilization.

***Net Income***

Net income for the current six-month period was $4,121, or $0.22 per share, compared to $2,983, or $0.16 per share, for the prior six-month period. The increase was primarily attributable to lower SG&A, partially offset by weaker results from PAL.

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

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

| | For the Six Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| Net income | $ 4,121 | $ 2,983 |
| Interest expense, net | 1,936 | 2,523 |
| Provision for income taxes | 1,228 | 536 |
| Depreciation and amortization expense (1) | 11,485 | 11,480 |
| EBITDA | 18,770 | 17,522 |
| | | |
| Equity in loss (earnings) of PAL | 2,012 | (745) |
| EBITDA excluding PAL | 20,782 | 16,777 |
| | | |
| Facility shutdown costs (2) | 383 | — |
| Adjusted EBITDA | $ 21,165 | $ 16,777 |

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 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 EBITDA increased from the prior six-month period to the current six-month period, primarily as a result of lower SG&A.

**Segment Overview**

Following is a discussion and analysis of the revenue and profitability performance of UNIFI's reportable segments for the current six-month period. As noted in the 2019 Form 10-K, segment gross profit includes the effect of certain technology-related expenses charged by the Polyester Segment to the Asia Segment. Such amounts are recorded as a benefit to cost of sales for the Polyester Segment and a charge to cost of sales for the Asia Segment, thereby impacting gross profit for each segment. The prior six-month period segment results have been revised to reflect comparability for this change.

***Polyester Segment***

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

| | For the Six Months Ended | | | | |
|---|---|---|---|---|---|
| | December 29, 2019 | | December 30, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 171,445 | 100.0 | $ 185,920 | 100.0 | (7.8) |
| Cost of sales | 156,990 | 91.6 | 174,807 | 94.0 | (10.2) |
| Gross profit | 14,455 | 8.4 | 11,113 | 6.0 | 30.1 |
| Depreciation expense | 8,224 | 4.8 | 8,189 | 4.4 | 0.4 |
| Segment Profit | $ 22,679 | 13.2 | $ 19,302 | 10.4 | 17.5 |
| | | | | | |
| Segment net sales as a percentage of consolidated amounts | 49.1% | | 53.2% | | |
| Segment Profit as a percentage of consolidated amounts | 52.5% | | 43.6% | | |

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

| | |
|---|---|
| Net sales for the prior six-month period | $ 185,920 |
| Decrease due to an additional week of sales in fiscal 2019 | (6,868) |
| Net change in average selling price and sales mix | (5,598) |
| Decrease in underlying sales volumes | (2,009) |
| Net sales for the current six-month period | $ 171,445 |

The decrease in net sales for the Polyester Segment from the prior six-month period to the current six-month period was primarily attributable to (i) one fewer week of sales in the current six-month period, (ii) lower average selling prices associated with polyester raw material cost changes and (iii) lower sales of Flake due to increased internal consumption.

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

| | |
|---|---|
| Segment Profit for the prior six-month period | $ 19,302 |
| Net increase in underlying margins | 2,715 |
| Increase in technologies expense charged to Asia Segment | 1,162 |
| Decrease due to an additional week of sales in fiscal 2019 | (288) |
| Decrease in underlying sales volumes | (212) |
| Segment Profit for the current six-month period | $ 22,679 |

The increase in Segment Profit for the Polyester Segment from the prior six-month period to the current six-month period was primarily attributable to (i) an improved conversion margin in connection with the comparative impact of (a) a declining raw material cost environment during the current six-month period and (b) an unfavorable raw material cost environment in the prior six-month period, (ii) better fixed cost absorption in the current six-month period due to improved facility utilization and (iii) the incremental technologies expense charged to the Asia Segment in connection with its higher sales volumes.

***Nylon Segment***

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

| | For the Six Months Ended | | | | |
|---|---|---|---|---|---|
| | December 29, 2019 | | December 30, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 37,286 | 100.0 | $ 50,596 | 100.0 | (26.3) |
| Cost of sales | 36,062 | 96.7 | 46,420 | 91.7 | (22.3) |
| Gross profit | 1,224 | 3.3 | 4,176 | 8.3 | (70.7) |
| Depreciation expense | 994 | 2.7 | 1,060 | 2.1 | (6.2) |
| Segment Profit | $ 2,218 | 6.0 | $ 5,236 | 10.4 | (57.6) |
| Segment net sales as a percentage of consolidated amounts | 10.7% | | 14.5% | | |
| Segment Profit as a percentage of consolidated amounts | 5.1% | | 11.8% | | |

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

| | |
|---|---|
| Net sales for the prior six-month period | $ 50,596 |
| Decrease in underlying sales volumes | (11,274) |
| Decrease due to an additional week of sales in fiscal 2019 | (2,114) |
| Net change in average selling price and sales mix | 78 |
| Net sales for the current six-month period | $ 37,286 |

The decrease in net sales for the Nylon Segment from the prior six-month period to the current six-month period was primarily attributable to (i) continued demand declines in certain nylon product categories, (ii) two customers shifting certain programs to overseas garment production during the current six-month period and (iii) an additional week of sales in the prior six-month period.

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

| | |
|---|---|
| Segment Profit for the prior six-month period | $ 5,236 |
| Decrease in underlying sales volumes | (1,172) |
| Net decrease in underlying margins | (1,649) |
| Decrease due to an additional week of sales in fiscal 2019 | (197) |
| Segment Profit for the current six-month period | $ 2,218 |

The decrease in Segment Profit for the Nylon Segment from the prior six-month period to the current six-month period was primarily attributable to weaker fixed cost absorption due to lower sales volumes, as described in the net sales analysis above.

***Brazil Segment***

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

| | For the Six Months Ended | | | | |
|---|---|---|---|---|---|
| | December 29, 2019 | | December 30, 2018 | | |
| | | % of Net Sales | | % of Net Sales | % Change |
| Net sales | $ 45,034 | 100.0 | $ 51,147 | 100.0 | (12.0) |
| Cost of sales | 37,445 | 83.1 | 40,320 | 78.8 | (7.1) |
| Gross profit | 7,589 | 16.9 | 10,827 | 21.2 | (29.9) |
| Depreciation expense | 732 | 1.6 | 726 | 1.4 | 0.8 |
| Segment Profit | $ 8,321 | 18.5 | $ 11,553 | 22.6 | (28.0) |
| Segment net sales as a percentage of consolidated amounts | 12.9% | | 14.6% | | |
| Segment Profit as a percentage of consolidated amounts | 19.3% | | 26.1% | | |

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

| | |
|---|---|
| Net sales for the prior six-month period | $ 51,147 |
| Decrease in average selling price | (3,865) |
| Unfavorable foreign currency translation effects | (2,005) |
| Decrease in sales volumes | (243) |
| Net sales for the current six-month period | $ 45,034 |

The decrease in net sales for the Brazil Segment from the prior six-month period to the current six-month period was primarily attributable to lower selling prices associated with declining raw material costs and competitive pricing pressures, along with unfavorable foreign currency translation effects.

The BRL weighted average exchange rate was 4.04 BRL/USD and 3.88 BRL/USD for the current six-month period and the prior six-month period, respectively.

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

| | | |
|---|---|---|
| Segment Profit for the prior six-month period | $ | 11,553 |
| Decrease in underlying margins | | (2,766) |
| Unfavorable foreign currency translation effects | | (411) |
| Decrease in sales volumes | | (55) |
| Segment Profit for the current six-month period | $ | 8,321 |

The decrease in Segment Profit for the Brazil Segment from the prior six-month period to the current six-month period was primarily attributable to competitive pricing pressures during a declining raw material cost environment. For the Brazil Segment, declining raw material costs place immediate downward market pressure on selling prices and, since the Brazil Segment's supply chain is generally longer, average inventory costs decline slower than selling prices. Additionally, the Brazil Segment accelerated certain raw material purchases in the fourth quarter of fiscal 2019, which exacerbated the above impact.

***Asia Segment***

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

| | For the Six Months Ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | December 29, 2019 | | | December 30, 2018 | | | |
| | | | % of Net Sales | | | % of Net Sales | % Change |
| Net sales | $ | 93,875 | 100.0 | $ | 59,443 | 100.0 | 57.9 |
| Cost of sales | | 84,076 | 89.6 | | 51,587 | 86.8 | 63.0 |
| Gross profit | | 9,799 | 10.4 | | 7,856 | 13.2 | 24.7 |
| Depreciation expense | | — | — | | — | — | — |
| Segment Profit | $ | 9,799 | 10.4 | $ | 7,856 | 13.2 | 24.7 |
| Segment net sales as a percentage of consolidated amounts | | 26.9% | | | 17.0% | | |
| Segment Profit as a percentage of consolidated amounts | | 22.7% | | | 17.7% | | |

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

| | | |
|---|---|---|
| Net sales for the prior six-month period | $ | 59,443 |
| Increase in sales volumes of Chip and staple fiber | | 28,271 |
| Increase in sales volumes of certain other PVA products | | 11,118 |
| Change in average selling price and sales mix | | (3,493) |
| Unfavorable foreign currency translation effects | | (1,464) |
| Net sales for the current six-month period | $ | 93,875 |

The increase in net sales for the Asia Segment from the prior six-month period to the current six-month period was primarily attributable to higher sales volumes of REPREVE®-branded products, primarily Chip and staple fiber, partially offset by (i) the impact of lower-priced Chip and staple fiber sales on average selling price and sales mix and (ii) unfavorable foreign currency translation effects due to the comparable weakening of the RMB.

The RMB weighted average exchange rate was 7.03 RMB/USD and 6.86 RMB/USD for the current six-month period and the prior six-month period, respectively.

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

| | | |
|---|---|---|
| Segment Profit for the prior six-month period | $ | 7,856 |
| Increase in sales volumes of Chip and staple fiber | | 3,875 |
| Increase in sales volumes of certain other PVA products | | 1,641 |
| Increase in technologies expense charged by Polyester Segment | | (1,162) |
| Decrease in underlying margins | | (2,157) |
| Unfavorable foreign currency translation effects | | (254) |
| Segment Profit for the current six-month period | $ | 9,799 |

The increase in Segment Profit for the Asia Segment from the prior six-month period to the current six-month period was primarily attributable to the increase in sales volumes and related sales mix change described in the net sales analysis above.

**Liquidity and Capital Resources**

UNIFI's primary capital requirements are for working capital, capital expenditures, debt service and 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 six-month period, cash generated from operations was $28,635, and, at December 29, 2019, excess availability under the ABL Revolver was $50,698.

As of December 29, 2019, all of UNIFI's $129,332 of debt obligations were guaranteed by certain of its domestic operating subsidiaries, while nearly all of UNIFI's cash and cash equivalents were held by its foreign subsidiaries. Cash and cash equivalents held by 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 December 29, 2019 for domestic operations compared to foreign operations:

| | Domestic | Foreign | Total |
|---|---|---|---|
| Cash and cash equivalents | $ 18 | $ 37,192 | $ 37,210 |
| Borrowings available under financing arrangements | 50,698 | — | 50,698 |
| Liquidity | $ 50,716 | $ 37,192 | $ 87,908 |
| | | | |
| Working capital | $ 96,342 | $ 106,878 | $ 203,220 |
| Total debt obligations | $ 129,332 | $ — | $ 129,332 |

***Debt Obligations***

*ABL Facility*

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

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

UNIFI currently utilizes variable-rate borrowings under the ABL Facility that are made with reference to USD LIBOR Rate Loans and is party to LIBOR-based interest rate swaps. Management recognizes the potential challenges posed by the previously announced termination of LIBOR. The 2018 Amendment includes fallback language to allow for a conversion of LIBOR Rate Loans to Base Rate Loans or a mutually agreed upon alternative rate of interest, such as the Secured Overnight Financing Rate. Management will continue to monitor the potential termination of LIBOR and the potential 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.

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

If excess availability under the ABL Revolver falls below the defined Trigger Level (as defined in the Credit Agreement), a financial covenant requiring the Loan Parties to maintain a Fixed Charge Coverage Ratio on a quarterly basis of at least 1.05 to 1.00 becomes effective. The Trigger Level as of December 29, 2019 was $24,063. In addition, the ABL Facility contains restrictions on particular payments and investments, including certain restrictions on share repurchases and the payment of dividends. Subject to specific provisions, the ABL Term Loan may be prepaid at par, in whole or in part, at any time before the maturity date, at UNIFI's discretion.

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

As of December 29, 2019, UNIFI was in compliance with all financial covenants in the Credit Agreement and the excess availability under the ABL Revolver was $50,698. At December 29, 2019, the Fixed Charge Coverage Ratio was 0.94 to 1.00 and UNIFI had $200 of standby letters of credit, none of which had been drawn upon. Management maintains the capability to quickly and easily improve the Fixed Charge Coverage Ratio utilizing existing cash and cash equivalents.

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

*Summary of Debt Obligations*

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

| | Scheduled Maturity Date | Weighted Average Interest Rate as of December 29, 2019 | Principal Amounts as of December 29, 2019 | Principal Amounts as of June 30, 2019 |
|---|---|---|---|---|
| ABL Revolver | December 2023 | 3.0% | $ 22,500 | $ 19,400 |
| ABL Term Loan (1) | December 2023 | 3.1% | 92,500 | 97,500 |
| Finance lease obligations | (2) | 3.6% | 14,332 | 11,118 |
| Total debt | | | 129,332 | 128,018 |
| Current ABL Term Loan | | | (10,000) | (10,000) |
| Current portion of finance lease obligations | | | (4,760) | (5,519) |
| Unamortized debt issuance costs | | | (834) | (958) |
| Total long-term debt | | | $ 113,738 | $ 111,541 |

(1) Includes the effects of interest rate swaps.
(2) Scheduled maturity dates for finance lease obligations range from March 2020 to November 2027.

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

*Scheduled Debt Maturities*

The following table presents the scheduled maturities of UNIFI's outstanding debt obligations for the remainder of fiscal 2020, the following four fiscal years and thereafter:

| | Fiscal 2020 | Fiscal 2021 | Fiscal 2022 | Fiscal 2023 | Fiscal 2024 | Thereafter |
|---|---|---|---|---|---|---|
| ABL Revolver | $ — | $ — | $ — | $ — | $ 22,500 | $ — |
| ABL Term Loan | 5,000 | 10,000 | 10,000 | 10,000 | 57,500 | — |
| Finance lease obligations | 2,951 | 3,563 | 3,388 | 1,046 | 1,130 | 2,254 |
| Total | $ 7,951 | $ 13,563 | $ 13,388 | $ 11,046 | $ 81,130 | $ 2,254 |

***Net Debt (Non-GAAP Financial Measure)***

The reconciliations for Net Debt are as follows:

| | December 29, 2019 | June 30, 2019 |
|---|---|---|
| Long-term debt | $ 113,738 | $ 111,541 |
| Current portion of long-term debt | 14,760 | 15,519 |
| Unamortized debt issuance costs | 834 | 958 |
| Debt principal | 129,332 | 128,018 |
| Less: cash and cash equivalents | 37,210 | 22,228 |
| Net Debt | $ 92,122 | $ 105,790 |

***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:

| | December 29, 2019 | June 30, 2019 |
|---|---|---|
| Cash and cash equivalents | $ 37,210 | $ 22,228 |
| Receivables, net | 78,132 | 88,884 |
| Inventories | 133,893 | 133,781 |
| Income taxes receivable | 4,595 | 4,373 |
| Other current assets | 18,311 | 16,356 |
| Accounts payable | (36,055) | (41,796) |
| Accrued expenses | (15,801) | (16,849) |
| Other current liabilities | (17,065) | (16,088) |
| Working capital | $ 203,220 | $ 190,889 |
| | | |
| Less: Cash and cash equivalents | (37,210) | (22,228) |
| Less: Income taxes receivable | (4,595) | (4,373) |
| Less: Other current liabilities | 17,065 | 16,088 |
| Adjusted Working Capital | $ 178,480 | $ 180,376 |

Working capital increased from $190,889 as of June 30, 2019 to $203,220 as of December 29, 2019, while Adjusted Working Capital decreased from $180,376 to $178,480.

The increase in cash and cash equivalents was driven by the operating cash flows generated by our foreign operations. The decrease in receivables, net was primarily attributable to lower sales associated with the timing of the seasonal shutdown period. The change in inventories was insignificant, as the impact of lower raw material costs were generally offset by an increase in inventory units. The change in income taxes receivable is insignificant. The increase in other current assets was primarily due to an increase in value-added taxes receivable in connection with increased sales activity in the Asia Segment. The decrease in accounts payable was primarily attributable to the timing of purchase activity associated with the seasonal shutdown period. The decrease in accrued expenses was primarily attributable to the payment of variable compensation earned in fiscal 2019. The increase in other current liabilities primarily reflects adding operating lease liabilities in the current six-month period in connection with the adoption of the new lease guidance, partially offset by scheduled payments against the current portion of long-term debt.

***Capital Projects***

During the current six-month period, UNIFI invested $8,335 in capital projects, primarily relating to (i) further improvements in production capabilities and technology enhancements in the Americas and (ii) 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.

Through the remainder of fiscal 2020, UNIFI expects to invest an additional $14,665 in capital projects for an aggregate fiscal 2020 estimate of $23,000, which includes (i) making further improvements in production capabilities and technology enhancements in the Americas, including the purchase and installation of new eAFK Evo texturing machines and (ii) routine annual maintenance capital expenditures to allow continued efficient production.

The total amount ultimately invested for fiscal 2020 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 by a combination of cash flows from operations and borrowings under the ABL Revolver. UNIFI expects the recent capital projects to provide benefits to future profitability. The additional assets from these capital projects consist primarily of machinery and equipment.

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

***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 December 29, 2019, $50,000 remains available for repurchase under the 2018 SRP.

***Liquidity Summary***

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

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

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

| | For the Six Months Ended | |
|---|---|---|
| | December 29, 2019 | December 30, 2018 |
| Net income | $ 4,121 | $ 2,983 |
| Equity in loss (earnings) of unconsolidated affiliates | 1,622 | (1,253) |
| Depreciation and amortization expense | 11,610 | 11,652 |
| Non-cash compensation expense | 1,837 | 3,039 |
| Deferred income taxes | (878) | (332) |
| Subtotal | 18,312 | 16,089 |
| | | |
| Distributions received from unconsolidated affiliates | 10,437 | 630 |
| Change in inventories | (1,330) | (17,139) |
| Other changes in assets and liabilities | 1,216 | (3,555) |
| Net cash provided by (used in) operating activities | $ 28,635 | $ (3,975) |

The increase in net cash provided by (used in) operating activities from the prior six-month period was primarily due to (i) $10,437 of distributions received from PAL in the current six-month period and (ii) the impact on working capital of a more favorable raw material cost environment.

**Cash Used in Investing Activities and Financing Activities**

UNIFI utilized $8,275 for investing activities and utilized $5,055 for financing activities during the current six-month period.

Investing activities include $8,335 for capital expenditures, which primarily relate to ongoing maintenance capital expenditures along with production capabilities and technology enhancements in the Americas.

Significant financing activities include net payments against the ABL Facility and finance leases during fiscal 2020.

**Contractual Obligations**

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

Except for the finance leases that commenced during fiscal 2020, as disclosed in Note 4. "Leases," 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 2019 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 2019 Form 10-K. There were no material changes to these policies during the current six-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 December 29, 2019, UNIFI had borrowings under its ABL Revolver and ABL Term Loan that totaled $115,000 and contain variable rates of interest; however, UNIFI hedges a significant portion of such interest rate variability using interest rate swaps. After considering the variable rate debt obligations that have been hedged and UNIFI's outstanding debt obligations with fixed rates of interest, UNIFI's sensitivity analysis indicates that a 50-basis point increase in LIBOR as of December 29, 2019 would result in an increase in annual interest expense of less than $300.

***Foreign Currency Exchange Rate Risk***

UNIFI conducts its business in various foreign countries and in various foreign currencies. Each of UNIFI's subsidiaries may enter into transactions (sales, purchases, fixed purchase commitments, etc.) that are denominated in currencies other than the subsidiary's functional currency and thereby expose UNIFI to foreign currency exchange rate risk. UNIFI may enter into foreign currency forward contracts to hedge this exposure. UNIFI may also enter into foreign currency forward contracts to hedge its exposure for certain equipment or inventory purchase commitments. As of December 29, 2019, UNIFI had no outstanding foreign currency forward contracts.

A significant portion of raw materials purchased by UNIFI's Brazilian subsidiary are denominated in USDs, requiring UNIFI to regularly exchange BRL. A significant portion of sales and asset balances for our Asian subsidiaries are denominated in USDs. During recent fiscal years, UNIFI was negatively impacted by a devaluation of the BRL. Also, the RMB experienced fluctuations in value at times during fiscal 2020 and 2019, 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."

As of December 29, 2019, UNIFI's foreign subsidiaries, whose functional currency is other than the USD, held approximately 19.1% of UNIFI's consolidated total assets. UNIFI does not enter into foreign currency derivatives to hedge its net investment in its foreign operations.

As of December 29, 2019, $29,767, or 80.0%, of UNIFI's cash and cash equivalents was held outside the U.S., of which $13,846 was held in USD, $2,744 was held in RMB and $12,898 was held in BRL. Approximately $7,100 of USD were held inside the U.S. by a foreign subsidiary.

***Raw Material and Commodity Risks***

A significant portion of UNIFI's raw material and energy costs are derived from petroleum-based chemicals. The prices for petroleum and petroleum-related products and energy costs are volatile and dependent on global supply and demand dynamics, including certain geo-political risks. A sudden rise in the price of petroleum and petroleum-based products could have a material impact on UNIFI's profitability. UNIFI does not use financial instruments to hedge its exposure to changes in these costs. The costs of the primary raw materials that UNIFI uses throughout all of its operations are generally based on USD pricing, and such materials are purchased at market or at fixed prices that are established with individual vendors as part of the purchasing process for quantities expected to be consumed in the ordinary course of business. UNIFI manages fluctuations in the cost of raw materials primarily by making corresponding adjustments to the prices charged to its customers. Certain customers are subject to an index-based pricing model in which UNIFI's prices are adjusted based on the change in the cost of raw materials in the prior fiscal 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 and its 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 the first six months of fiscal 2020, UNIFI experienced a favorable, declining raw material cost environment, in contrast to a generally elevated raw material cost environment in fiscal 2019 and 2018. However, our raw material costs remain subject to the volatility described above and, should raw material costs spike 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 December 29, 2019, an evaluation of the effectiveness of UNIFI's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was performed under the supervision and with the participation of UNIFI's management, including the principal executive officer and 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 December 29, 2019 that have materially affected, or are reasonably likely to materially affect, UNIFI's internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

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

**Item 6. Exhibits**

| Exhibit No. | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation of Unifi, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed October 31, 2016 (File No. 001-10542)). |
| 3.2 | Amended and Restated By-laws of Unifi, Inc., as of October 26, 2016 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed October 31, 2016 (File No. 001-10542)). |
| 3.3 | Declaration of Amendment to 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)). |
| 10.1*+ | Unifi, Inc. Director Compensation Policy, effective October 30, 2019. |
| 31.1+ | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2+ | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1++ | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2++ | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101+ | The following financial information (unaudited) from Unifi, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 29, 2019, filed February 6, 2020, formatted in eXtensible Business Reporting Language: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements. |

\+ Filed herewith.

++ Furnished herewith.

* Indicates a management contract or compensatory plan or arrangement.

**SIGNATURES**

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

**UNIFI, INC.**
(Registrant)

Date: February 6, 2020

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

# UNIFI, INC.

## DIRECTOR COMPENSATION POLICY*
## (Effective October 30, 2019)

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

- $100,000 annual retainer, where up to fifty percent (50%) of such amount is payable (at the director's election) in cash and the remainder of such amount is an equity grant payable in shares of the Company's common stock;
- $15,000 annual retainer for the Lead Independent Director, payable (at the director's election) in cash or shares of the Company's common stock;
- $15,000 annual retainer for the chair of the Audit Committee, payable (at the director's election) in cash or shares of the Company's common stock;
- $10,000 annual retainer for the chairs of the Compensation Committee and the Corporate Governance and Nominating Committee, payable (at such director's election) in cash or shares of the Company's common stock; and
- reimbursement of reasonable expenses incurred for attending Board and committee meetings.

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

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

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

* *Adopted by the Board on October 30, 2019.*

**Exhibit 31.1**

**CERTIFICATION**

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

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

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

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

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

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

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

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

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

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

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

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

Date: February 6, 2020

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

# 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: February 6, 2020

/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 December 29, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Thomas H. Caudle, Jr., President & Chief Operating Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: February 6, 2020

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

**Exhibit 32.2**

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

In connection with the Quarterly Report on Form 10-Q of Unifi, Inc. (the “Company”) for the period ended December 29, 2019, 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:February 6, 2020

/s/ CRAIG A. CREATURO

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