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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 25, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 1-10542

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

New York	**11-2165495**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of April 26, 2018, there were 18,335,727 shares of the registrant's common stock, par value $0.10 per share, outstanding.

FORWARD-LOOKING STATEMENTS

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

- the competitive nature of the textile industry and the impact of global competition;
- changes in the trade regulatory environment and governmental policies and legislation;
- the availability, sourcing and pricing of raw materials;
- general domestic and international economic and industry conditions in markets where the Company competes, including economic and political factors over which the Company has no control;
- changes in consumer spending, customer preferences, fashion trends and end-uses for products;
- the financial condition of the Company's customers;
- the loss of a significant customer;
- the success of the Company's strategic business initiatives;
- volatility of financial and credit markets;
- the ability to service indebtedness and fund capital expenditures and strategic business initiatives;
- availability of and access to credit on reasonable terms;
- changes in foreign currency exchange, interest and inflation rates;
- fluctuations in production costs;
- the ability to protect intellectual property;
- employee relations;
- the impact of environmental, health and safety regulations;
- the operating performance of joint ventures and other equity investments;
- the accurate financial reporting of information from equity method investees; and
- other factors discussed in "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended June 25, 2017 or elsewhere in this report.

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

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

UNIFI, INC.

FORM 10-Q
FOR THE THREE MONTHS AND NINE MONTHS ENDED MARCH 25, 2018

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PART I—FINANCIAL INFORMATION

Item 1. **Financial Statements**

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

	March 25, 2018	June 25, 2017
ASSETS		
Cash and cash equivalents	$ 40,576	$ 35,425
Receivables, net	87,427	81,121
Inventories	121,293	111,405
Income taxes receivable	10,645	9,218
Other current assets	7,178	6,468
Total current assets	267,119	243,637
Property, plant and equipment, net	203,713	203,388
Deferred income taxes	4,030	2,194
Investments in unconsolidated affiliates	112,249	119,513
Other non-current assets	3,781	2,771
Total assets	$ 590,892	$ 571,503
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$ 41,006	$ 41,499
Accrued expenses	16,039	16,144
Income taxes payable	2,378	1,351
Current portion of long-term debt	17,076	17,060
Total current liabilities	76,499	76,054
Long-term debt	108,558	111,382
Other long-term liabilities	10,904	11,804
Deferred income taxes	4,850	11,457
Total liabilities	200,811	210,697
Commitments and contingencies		
Common stock, $0.10 par value (500,000,000 shares authorized; 18,328,285 and 18,229,777 shares issued and outstanding as of March 25, 2018 and June 25, 2017, respectively)	1,833	1,823
Capital in excess of par value	56,199	51,923
Retained earnings	360,878	339,940
Accumulated other comprehensive loss	(28,829)	(32,880)
Total Unifi, Inc. shareholders' equity	390,081	360,806
Non-controlling interest	—	—
Total shareholders' equity	390,081	360,806
Total liabilities and shareholders' equity	$ 590,892	$ 571,503

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 Nine Months Ended	
	March 25, 2018	March 26, 2017	March 25, 2018	March 26, 2017
Net sales	$ 165,867	$ 160,896	$ 497,587	$ 476,020
Cost of sales	149,311	139,766	435,063	409,213
Gross profit	16,556	21,130	62,524	66,807
Selling, general and administrative expenses	13,846	13,000	41,335	37,278
Provision (benefit) for bad debts	27	(92)	(104)	(554)
Other operating expense (income), net	1,100	(885)	1,763	(636)
Operating income	1,583	9,107	19,530	30,719
Interest income	(182)	(126)	(444)	(455)
Interest expense	1,187	825	3,562	2,431
Loss on sale of business	—	—	—	1,662
Equity in earnings of unconsolidated affiliates	(544)	(1,600)	(3,842)	(2,073)
Income before income taxes	1,122	10,008	20,254	29,154
Provision (benefit) for income taxes	946	831	(684)	6,481
Net income including non-controlling interest	176	9,177	20,938	22,673
Less: net loss attributable to non-controlling interest	—	—	—	(498)
Net income attributable to Unifi, Inc.	$ 176	$ 9,177	$ 20,938	$ 23,171
Net income attributable to Unifi, Inc. per common share:				
Basic	$ 0.01	$ 0.50	$ 1.15	$ 1.28
Diluted	$ 0.01	$ 0.50	$ 1.12	$ 1.26

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended		For the Nine Months Ended	
	March 25, 2018	March 26, 2017	March 25, 2018	March 26, 2017
Net income including non-controlling interest	$ 176	$ 9,177	$ 20,938	$ 22,673
Other comprehensive income:				
Foreign currency translation adjustments	1,047	1,370	1,571	11
Foreign currency translation adjustments for an unconsolidated affiliate	439	485	(154)	(38)
Changes in interest rate swaps	1,142	15	2,634	53
Other comprehensive income, net	2,628	1,870	4,051	26
Comprehensive income including non-controlling interest	2,804	11,047	24,989	22,699
Less: comprehensive loss attributable to non-controlling interest	—	—	—	(498)
Comprehensive income attributable to Unifi, Inc.	$ 2,804	$ 11,047	$ 24,989	$ 23,197

See accompanying notes to condensed consolidated financial statements.

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

	For the Nine Months Ended	
	March 25, 2018	March 26, 2017
Cash and cash equivalents at beginning of year	$ 35,425	$ 16,646
Operating activities:		
Net income including non-controlling interest	20,938	22,673
Adjustments to reconcile net income including non-controlling interest to net cash provided by operating activities:		
Equity in earnings of unconsolidated affiliates	(3,842)	(2,073)
Distributions received from unconsolidated affiliates	11,226	1,500
Depreciation and amortization expense	16,844	14,887
Non-cash compensation expense	4,878	2,473
Loss on sale of business	—	1,662
Excess tax benefit on stock-based compensation plans	—	(1,168)
Deferred income taxes	(8,441)	6,305
Other, net	(180)	(980)
Changes in assets and liabilities:		
Receivables, net	(6,084)	(3,581)
Inventories	(9,424)	(5,720)
Other current assets	(493)	1,221
Income taxes	(464)	(8,787)
Accounts payable and accrued expenses	(323)	1,246
Other, net	354	(372)
Net cash provided by operating activities	24,989	29,286
Investing activities:		
Capital expenditures	(17,091)	(27,875)
Other, net	—	(179)
Net cash used in investing activities	(17,091)	(28,054)
Financing activities:		
Proceeds from ABL Revolver	80,200	93,000
Payments on ABL Revolver	(70,500)	(88,100)
Proceeds from ABL Term Loan	—	14,500
Payments on ABL Term Loan	(7,500)	(7,250)
Payments on capital lease obligations	(5,286)	(3,218)
Proceeds from stock option exercises	219	2,617
Excess tax benefit on stock-based compensation plans	—	1,168
Other	(597)	(429)
Net cash (used in) provided by financing activities	(3,464)	12,288
Effect of exchange rate changes on cash and cash equivalents	717	65
Net increase in cash and cash equivalents	5,151	13,585
Cash and cash equivalents at end of period	$ 40,576	$ 30,231

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 synthetic and recycled products made from polyester and nylon primarily to other yarn manufacturers and knitters and weavers that produce fabric for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets. Polyester yarns include partially oriented yarn ("POY"), textured, solution and package dyed, twisted, beamed and draw wound yarns, and each is available in virgin or recycled varieties. Recycled solutions, made from both pre-consumer and post-consumer waste, include plastic bottle flake and polyester polymer beads ("Chip"). Nylon products include textured, solution dyed and spandex covered yarns.

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

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

2. Basis of Presentation; Condensed Notes

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information. As contemplated by the instructions of the Securities and Exchange Commission (the "SEC") to Form 10-Q, the following notes have been condensed and, therefore, do not contain all disclosures required in connection with annual financial statements. Reference should be made to UNIFI's year-end audited consolidated financial statements and related notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended June 25, 2017 (the "2017 Form 10-K").

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

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

The fiscal quarter for Unifi, Inc. and its subsidiary in El Salvador ended on March 25, 2018, the last Sunday in March. The fiscal quarter for Unifi, Inc.'s Brazilian, Chinese, Colombian and Sri Lankan subsidiaries ended on March 31, 2018. There were no significant transactions or events that occurred between Unifi, Inc.'s fiscal quarter end and such wholly owned subsidiaries' subsequent fiscal quarter end. The three-month and nine-month periods ended March 25, 2018 and March 26, 2017 each consisted of 13 and 39 fiscal weeks, respectively.

Reclassifications

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

3. Recent Accounting Pronouncements

Issued and Pending Adoption

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent ASUs have been issued to provide clarity and defer the effective date of the new guidance. The new revenue recognition standard eliminates the transaction- and industry-specific revenue recognition guidance under current GAAP and replaces it with a principles-based approach. While UNIFI has not yet determined the effect of the new guidance on its ongoing financial reporting, UNIFI notes the following considerations: (i) UNIFI is primarily engaged in the business of manufacturing and delivering tangible products utilizing relatively straightforward contract terms without multiple performance obligations and (ii) transaction prices for UNIFI's primary and material revenue activities are determinable and lack significant timing considerations. UNIFI is currently performing the following activities regarding implementation of the new guidance: (a) reviewing material contracts and (b) assessing accounting policy elections and disclosures under the new guidance. In addition, implementation matters remaining include (x) evaluating the systems and processes to support revenue recognition and (y) selecting the method of adoption. The new revenue recognition guidance is effective for UNIFI's fiscal 2019.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. While UNIFI has not yet determined the full effect of the new guidance on its ongoing financial reporting, as of June 25, 2017, UNIFI had approximately $6,400 of future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) and did not enter into any new material operating lease agreements during the nine months ended March 25, 2018. The new lease guidance is effective for UNIFI's fiscal 2020, and early adoption is permitted.

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

Recently Adopted

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

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The ASU is intended to clarify the definition of a business and reduce the complexity of evaluating transactions that are more akin to asset acquisitions. UNIFI early adopted ASU No. 2017-01 in the three months ended March 25, 2018. There are no current period or historical adjustments to UNIFI's financial statements required in connection with adoption of the ASU. Any transaction that is required to be evaluated under the ASU is accounted for prospectively.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments, including the accounting and classification of the respective income tax impacts, forfeitures and statutory withholding requirements. UNIFI adopted the ASU in the three months ended September 24, 2017, on a prospective basis. The adoption resulted in a $214 decrease to the provision for income taxes for excess tax benefits and an immaterial increase in potential dilutive weighted average shares for the nine months ended March 25, 2018. In connection with the adoption of the ASU, UNIFI has elected to recognize forfeitures as they occur, and there is no corresponding retrospective adjustment to retained earnings. Additionally, UNIFI is presenting the change in classification of excess tax benefits in the condensed consolidated statements of cash flows on a prospective basis.

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

Based on UNIFI's review of ASUs issued since the filing of the 2017 Form 10-K, there have been no other newly issued or newly applicable accounting pronouncements that have had, or are expected to have, a significant impact on UNIFI's consolidated financial statements.

4. Receivables, Net

Receivables, net consists of the following:

	March 25, 2018	June 25, 2017
Customer receivables	$ 89,422	$ 83,291
Allowance for uncollectible accounts	(2,122)	(2,222)
Reserves for yarn quality claims	(743)	(1,278)
Net customer receivables	86,557	79,791
Other receivables	870	1,330
Total receivables, net	$ 87,427	$ 81,121

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

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

	Reserves for Yarn Quality Claims
Balance at June 25, 2017	$ (1,278)
Charged to costs and expenses	(843)
Translation activity	(19)
Deductions	1,397
Balance at March 25, 2018	$ (743)

5. Inventories

Inventories consists of the following:

	March 25, 2018	June 25, 2017
Raw materials	$ 45,210	$ 36,748
Supplies	7,192	6,104
Work in process	8,012	7,399
Finished goods	63,049	63,121
Gross inventories	123,463	113,372
Inventory reserves	(2,170)	(1,967)
Total inventories	$ 121,293	$ 111,405

6. Property, Plant and Equipment, Net

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

	March 25, 2018	June 25, 2017
Land	$ 2,938	$ 2,931
Land improvements	15,118	15,066
Buildings and improvements	158,590	157,115
Assets under capital leases	34,568	34,568
Machinery and equipment	590,952	579,211
Computers, software and office equipment	19,282	19,360
Transportation equipment	4,988	4,798
Construction in progress	7,214	7,371
Gross property, plant and equipment	833,650	820,420
Less: accumulated depreciation	(623,240)	(612,355)
Less: accumulated amortization – capital leases	(6,697)	(4,677)
Total PP&E	$ 203,713	$ 203,388

Depreciation expense and repair and maintenance expenses were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	March 25, 2018	March 26, 2017	March 25, 2018	March 26, 2017
Depreciation expense	$ 5,387	$ 4,733	$ 15,747	$ 13,433
Repair and maintenance expenses	5,024	4,770	14,528	13,524

7. Accrued Expenses

Accrued expenses consists of the following:

	March 25, 2018	June 25, 2017
Payroll and fringe benefits	$ 11,010	$ 10,469
Other	5,029	5,675
Total accrued expenses	$ 16,039	$ 16,144

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

8. Long-Term Debt

Debt Obligations

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

	Scheduled Maturity Date	Weighted Average Interest Rate as of March 25, 2018	Principal Amounts as of March 25, 2018	Principal Amounts as of June 25, 2017
ABL Revolver	March 2020	3.1%	$ 19,000	$ 9,300
ABL Term Loan (1)	March 2020	3.4%	87,500	95,000
Capital lease obligations	(2)	3.7%	19,882	25,168
Total debt			126,382	129,468
Current portion of capital lease obligations			(7,076)	(7,060)
Current portion of other long-term debt			(10,000)	(10,000)
Unamortized debt issuance costs			(748)	(1,026)
Total long-term debt			$ 108,558	$ 111,382

(1) Includes the effects of interest rate swaps.
(2) Scheduled maturity dates for capital lease obligations range from July 2018 to November 2027.

ABL Facility

On March 26, 2015, Unifi, Inc. and its subsidiary, Unifi Manufacturing, Inc., entered into an Amended and Restated Credit Agreement for a $200,000 senior secured credit facility (the "ABL Facility") with a syndicate of lenders. The ABL Facility consists of a $100,000 revolving credit facility (the "ABL Revolver") and a term loan that can be reset up to a maximum amount of $100,000, once per fiscal year, if certain conditions are met (the "ABL Term Loan"). The ABL Facility has a maturity date of March 26, 2020.

Scheduled Debt Maturities

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

	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Thereafter
ABL Revolver	$ —	$ —	$ 19,000	$ —	$ —	$ —
ABL Term Loan	2,500	10,000	75,000	—	—	—
Capital lease obligations	1,774	6,996	5,519	2,624	2,417	552
Total	$ 4,274	$ 16,996	$ 99,519	$ 2,624	$ 2,417	$ 552

9. Other Long-Term Liabilities

Other long-term liabilities consists of the following:

	March 25, 2018	June 25, 2017
Uncertain tax positions	$ 5,409	$ 5,077
Other	5,495	6,727
Total other long-term liabilities	$ 10,904	$ 11,804

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

10. Income Taxes

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

	For the Three Months Ended		For the Nine Months Ended	
	March 25, 2018	March 26, 2017	March 25, 2018	March 26, 2017
Provision (benefit) for income taxes	$ 946	$ 831	$ (684)	$ 6,481
Effective tax rate	84.3%	8.3%	(3.4)%	22.2%

H.R. 1, formerly known as the Tax Cuts and Jobs Act, was enacted on December 22, 2017. H.R. 1 includes significant changes to existing tax law, including a permanent reduction to the U.S. federal corporate income tax rate from 35% to 21%, a one-time mandatory deemed repatriation of foreign earning and profits (the "toll charge"), deductions, credits and business-related exclusions.

The permanent reduction to the U.S. federal corporate income tax rate from 35% to 21% was effective January 1, 2018. When a U.S. federal tax rate change occurs during a fiscal year, taxpayers are required to compute a weighted daily average rate for the fiscal year of enactment. As a result of H.R. 1, UNIFI has calculated a U.S. federal corporate income tax rate of 28.27% for its fiscal 2018 tax year.

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

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

The effective tax rates for the three and nine months ended March 26, 2017 are lower than the U.S. statutory tax rate primarily due to foreign income being taxed at lower rates and a decrease in the valuation allowance for the Company's investment in PAL, partially offset by losses in tax jurisdictions for which no tax benefit could be recognized and state and local income taxes net of federal benefits. Additionally, the effective tax rates for the three months and nine months ended March 26, 2017 include the benefit of increased research and development credits, partially offset by a corresponding reduction in the domestic production activities deduction.

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

Specific to the toll charge, UNIFI has recorded a $1,600 provisional charge, net of foreign tax credits, based on the following estimates: (i) earnings and profits of foreign jurisdictions that will not be complete until the end of fiscal 2018, (ii) the aggregate cash position at June 24, 2018 and (iii) finalization of taxes paid in foreign jurisdictions. Additionally, the estimates have been made based on UNIFI's interpretation of H.R. 1. The U.S. Treasury has indicated in Notice 2018-07 and Notice 2018-26 that it expects to issue further guidance to clarify certain technical aspects of H.R. 1, which could impact UNIFI's computations and provisional amounts recorded.

During the three months ended March 25, 2018, UNIFI recorded a $100 decrease to the provisional amount of the toll charge, net of foreign tax credits and valuation allowance, which created an effective rate benefit of less than one percent. The measurement period adjustments are primarily due to refined estimates based on guidance issued by the U.S. Internal Revenue Service and the U.S. Treasury during the quarter.

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

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

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

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

UNIFI also regularly assesses whether it is more-likely-than-not that some portion or all of its deferred tax assets will not be realized. UNIFI considers the scheduled reversal of taxable temporary differences, taxable income in carryback years, projected future taxable income and tax planning strategies in making this assessment. Since UNIFI operates in multiple jurisdictions, the assessment is made on a jurisdiction-by-jurisdiction basis, taking into account the effects of local tax law. Due to new facts and circumstances in the second quarter of fiscal 2018, UNIFI has determined it can utilize certain NOLs to offset future taxable income and has reduced the corresponding valuation allowance by $3,807. There was also a reduction to valuation allowances on U.S. deferred tax assets in the prior quarter as a result of the lower U.S. statutory tax rate under H.R. 1. UNIFI has increased the valuation allowance for foreign tax credits generated by the toll charge that cannot be claimed in the year of the mandatory repatriation.

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

	March 25, 2018	June 25, 2017
Investment in a former domestic unconsolidated affiliate	$ (3,958)	$ (6,269)
Equity-method investment in PAL	(1,248)	(1,520)
Certain losses carried forward (1)	(1,548)	(5,924)
State NOLs	(108)	(108)
Other foreign NOLs (2)	(2,836)	(3,347)
Foreign tax credits	(1,836)	(789)
Total deferred tax valuation allowance	$ (11,534)	$ (17,957)

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

11. Shareholders' Equity

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

No dividends were paid during the nine months ended March 25, 2018 or in the two most recently completed fiscal years.

12. Stock-Based Compensation

The following table provides information as of March 25, 2018 with respect to the number of securities remaining available for future issuance under the Unifi, Inc. 2013 Incentive Compensation Plan (the "2013 Plan"):

Authorized under the 2013 Plan	1,000
Plus: Certain awards expired, forfeited or otherwise terminated unexercised	343
Less: Awards granted to employees	(720)
Less: Awards granted to non-employee directors	(136)
Available for issuance under the 2013 Plan	487

During the nine months ended March 25, 2018 and March 26, 2017, UNIFI granted stock options to purchase 73 and 128 shares of common stock, respectively.

During the nine months ended March 25, 2018 and March 26, 2017, UNIFI granted 116 and 31 restricted stock units ("RSUs"), respectively.

13. Fair Value of Financial Instruments and Non-Financial Assets and Liabilities

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

	For the Three Months Ended		For the Nine Months Ended	
	March 25, 2018	March 26, 2017	March 25, 2018	March 26, 2017
Interest expense	$ 1,187	$ 825	$ 3,562	$ 2,431
Increase in fair value of interest rate swaps	(1,142)	(67)	(2,634)	(254)
Impact of interest rate swaps on interest expense	65	36	319	172

For the nine months ended March 25, 2018 and March 26, 2017, there were no significant changes to UNIFI's assets and liabilities measured at fair value, and there were no transfers into or out of the levels of the fair value hierarchy.

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

14. Accumulated Other Comprehensive Loss

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

	Foreign Currency Translation Adjustments	Changes in Interest Rate Swaps	Accumulated Other Comprehensive Loss
Balance at June 25, 2017	$ (32,372)	$ (508)	$ (32,880)
Other comprehensive income, net of tax	1,417	2,634	4,051
Balance at March 25, 2018	$ (30,955)	$ 2,126	$ (28,829)

A summary of the after-tax effects of the components of other comprehensive income, net for the three-month and nine-month periods ended March 25, 2018 and March 26, 2017 is included in the accompanying condensed consolidated statements of comprehensive income.

15. Earnings Per Share

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

	For the Three Months Ended		For the Nine Months Ended	
	March 25, 2018	March 26, 2017	March 25, 2018	March 26, 2017
Net income attributable to Unifi, Inc.	$ 176	$ 9,177	$ 20,938	$ 23,171
Basic weighted average shares	18,309	18,210	18,275	18,105
Net potential common share equivalents – stock options and RSUs	392	283	342	315
Diluted weighted average shares	18,701	18,493	18,617	18,420
Excluded from diluted weighted average shares:				
Anti-dilutive common share equivalents	96	261	163	315

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

16. Investments in Unconsolidated Affiliates and Variable Interest Entities

UNIFI currently maintains investments in three entities classified as unconsolidated affiliates: PAL; U.N.F. Industries, Ltd. ("UNF"); and UNF America LLC ("UNFA"). As of March 25, 2018, UNIFI's investment in PAL was $109,440 and UNIFI's combined investments in UNF and UNFA were $2,809, each of which is reflected within investments in unconsolidated affiliates in the accompanying condensed consolidated balance sheets.

Parkdale America, LLC

PAL is a limited liability company treated as a partnership for income tax reporting purposes. UNIFI accounts for its investment in PAL using the equity method of accounting. PAL is subject to price risk related to anticipated fixed-price yarn sales. To protect the gross margin of these sales, PAL may enter into cotton futures to manage changes in raw material prices. The derivative instruments used are listed and traded on an exchange and are valued using quoted prices classified within Level 1 of the fair value hierarchy. As of March 2018, PAL had no futures contracts designated as cash flow hedges.

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

Underlying equity as of March 25, 2018	$ 127,531
Initial excess capital contributions	53,363
Impairment charge recorded by UNIFI in fiscal 2007	(74,106)
Anti-trust lawsuit against PAL in which UNIFI did not participate	2,652
Investment as of March 25, 2018	$ 109,440

U.N.F. Industries, Ltd.

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

UNF America LLC

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

In conjunction with the formation of UNFA, UNIFI entered into a supply agreement with UNF and UNFA whereby UNIFI agreed to purchase all of its first quality nylon POY requirements for texturing (subject to certain exceptions) from either UNF or UNFA. The agreement has no stated minimum purchase quantities and pricing is negotiated every six months, based on market rates. As of March 25, 2018, UNIFI's open purchase orders related to this agreement were $5,686.

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

	For the Nine Months Ended	
	March 25, 2018	March 26, 2017
UNF	$ 1,463	$ 1,676
UNFA	16,291	14,910
Total	$ 17,754	$ 16,586

As of March 25, 2018 and June 25, 2017, UNIFI had combined accounts payable due to UNF and UNFA of $2,692 and $2,301, respectively.

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

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

	As of March 25, 2018			As of June 25, 2017		
	PAL	Other	Total	PAL	Other	Total
Current assets	$ 267,775	$ 9,967	$ 277,742	$ 247,820	$ 10,340	$ 258,160
Noncurrent assets	165,940	923	166,863	183,418	1,039	184,457
Current liabilities	54,943	3,773	58,716	54,389	3,588	57,977
Noncurrent liabilities	3,683	—	3,683	3,263	—	3,263
Shareholders' equity and capital accounts	375,089	7,117	382,206	373,586	7,791	381,377
UNIFI's portion of undistributed earnings	40,113	1,153	41,266	46,248	1,916	48,164

	For the Three Months Ended March 25, 2018			For the Three Months Ended March 26, 2017		
	PAL	Other	Total	PAL	Other	Total
Net sales	$ 199,473	$ 5,764	$ 205,237	$ 202,216	$ 5,403	$ 207,619
Gross profit	6,078	1,001	7,079	8,728	1,118	9,846
Income from operations	80	601	681	6,102	680	6,782
Net income	1,409	611	2,020	3,905	581	4,486
Depreciation and amortization	9,081	48	9,129	9,612	46	9,658
Cash received by PAL under cotton rebate program	3,220	—	3,220	3,163	—	3,163
Earnings recognized by PAL for cotton rebate program	3,386	—	3,386	3,592	—	3,592
Distributions received	1,798	750	2,548	—	—	—

	For the Nine Months Ended March 25, 2018			For the Nine Months Ended March 26, 2017		
	PAL	Other	Total	PAL	Other	Total
Net sales	$ 578,841	$ 18,213	$ 597,054	$ 561,190	$ 16,461	$ 577,651
Gross profit	22,167	3,583	25,750	15,989	3,646	19,635
Income from operations	8,114	2,295	10,409	4,114	2,274	6,388
Net income	8,357	2,327	10,684	2,541	2,191	4,732
Depreciation and amortization	29,566	142	29,708	32,796	130	32,926
Cash received by PAL under cotton rebate program	10,162	—	10,162	10,925	—	10,925
Earnings recognized by PAL for cotton rebate program	9,832	—	9,832	10,388	—	10,388
Distributions received	8,976	2,250	11,226	—	1,500	1,500

17. Commitments and Contingencies

Collective Bargaining Agreements

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

Environmental

On September 30, 2004, UNIFI completed its acquisition of polyester filament manufacturing assets located in Kinston, North Carolina from Invista S.a.r.l. ("INVISTA"). The land for the Kinston site was leased pursuant to a 99-year ground lease (the "Ground Lease") with E.I. DuPont de Nemours ("DuPont"). Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the U.S. Environmental Protection Agency and the North Carolina Department of Environmental Quality ("DEQ") pursuant to the Resource Conservation and Recovery Act Corrective Action program. The program requires DuPont to identify all potential areas of environmental concern ("AOCs"), assess the extent of containment at the identified AOCs and remediate the AOCs to comply with applicable regulatory standards. Effective March 20, 2008, UNIFI entered into a lease termination agreement associated with conveyance of certain assets at the Kinston site to DuPont. This agreement terminated the Ground Lease and relieved UNIFI of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to UNIFI's period of operation of the Kinston site, which was from 2004 to 2008. At this time, UNIFI has no basis to determine if or when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same.

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

Leases

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

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

18. Related Party Transactions

For details regarding the nature of certain related party relationships, see Note 24, "Related Party Transactions," to the consolidated financial statements in the 2017 Form 10-K.

Related party receivables consists of the following:

	March 25, 2018	June 25, 2017
Salem Global Logistics, Inc.	$ 5	$ 6
Total related party receivables (included within receivables, net)	$ 5	$ 6

Related party payables consists of the following:

	March 25, 2018	June 25, 2017
Salem Leasing Corporation (included within accounts payable)	$ 281	$ 298
Salem Leasing Corporation (capital lease obligation)	893	947
Total related party payables	$ 1,174	$ 1,245

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

		For the Three Months Ended		For the Nine Months Ended	
Affiliated Entity	**Transaction Type**	**March 25, 2018**	**March 26, 2017**	**March 25, 2018**	**March 26, 2017**
Salem Leasing Corporation	Transportation equipment costs and capital lease debt service	$ 1,028	$ 643	$ 2,978	$ 2,912
Salem Global Logistics, Inc.	Freight service income	35	36	127	88

19. Business Segment Information

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

UNIFI's operating segments are aggregated into three reportable segments based on similarities between the operating segments' economic characteristics, nature of products sold, type of customer, methods of distribution and regulatory environment.

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

In addition to UNIFI's reportable segments, the selected financial information presented below includes an All Other category. All Other consists primarily of for-hire transportation services and Repreve Renewables, LLC ("Renewables") (up through December 23, 2016, the date of the sale by UNIFI of its historical 60% equity ownership interest in Renewables). For-hire transportation services revenue is derived from performing common carrier services utilizing UNIFI's fleet of transportation equipment. Revenue for Renewables was primarily derived from (i) facilitating the use of miscanthus grass as bio-fuel through service agreements and (ii) delivering harvested miscanthus grass to poultry producers for animal bedding.

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

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

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

Selected financial information is presented below:

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

	For the Three Months Ended March 26, 2017				
	Polyester	Nylon	International	All Other	Total
Net sales	$ 90,267	$ 26,987	$ 42,345	$ 1,297	$ 160,896
Cost of sales	81,730	24,656	32,159	1,221	139,766
Gross profit	8,537	2,331	10,186	76	21,130
Segment depreciation expense	3,636	542	317	74	4,569
Segment Profit	$ 12,173	$ 2,873	$ 10,503	$ 150	$ 25,699

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

	For the Nine Months Ended March 26, 2017				
	Polyester	Nylon	International	All Other	Total
Net sales	$ 261,623	$ 83,784	$ 126,557	$ 4,056	$ 476,020
Cost of sales	234,165	75,693	94,652	4,703	409,213
Gross profit (loss)	27,458	8,091	31,905	(647)	66,807
Segment depreciation expense	10,128	1,582	791	570	13,071
Segment Profit (Loss)	$ 37,586	$ 9,673	$ 32,696	$ (77)	$ 79,878

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

	For the Three Months Ended		For the Nine Months Ended	
	March 25, 2018	March 26, 2017	March 25, 2018	March 26, 2017
Polyester	$ 4,815	$ 8,537	$ 22,304	$ 27,458
Nylon	1,013	2,331	7,403	8,091
International	10,672	10,186	32,644	31,905
All Other	56	76	173	(647)
Segment gross profit	16,556	21,130	62,524	66,807
Selling, general and administrative expenses	13,846	13,000	41,335	37,278
Provision (benefit) for bad debts	27	(92)	(104)	(554)
Other operating expense (income), net	1,100	(885)	1,763	(636)
Operating income	1,583	9,107	19,530	30,719
Interest income	(182)	(126)	(444)	(455)
Interest expense	1,187	825	3,562	2,431
Loss on sale of business	—	—	—	1,662
Equity in earnings of unconsolidated affiliates	(544)	(1,600)	(3,842)	(2,073)
Income before income taxes	$ 1,122	$ 10,008	$ 20,254	$ 29,154

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

	March 25, 2018	June 25, 2017
Polyester	$ 272,358	$ 270,819
Nylon	58,565	57,789
International	96,768	80,824
Segment total assets	427,691	409,432
Other current assets	30,861	27,375
Other PP&E	16,177	14,904
Other non-current assets	3,914	279
Investments in unconsolidated affiliates	112,249	119,513
Total assets	$ 590,892	$ 571,503

20. Supplemental Cash Flow Information

Cash payments for interest and taxes consist of the following:

	For the Nine Months Ended	
	March 25, 2018	March 26, 2017
Interest, net of capitalized interest of $137 and $577, respectively	$ 3,254	$ 2,320
Income taxes, net of refunds	7,824	7,979

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

Non-Cash Investing and Financing Activities

As of March 25, 2018 and June 25, 2017, $2,308 and $3,234, respectively, were included in accounts payable for unpaid capital expenditures. As of March 26, 2017 and June 26, 2016, $1,958 and $4,197, respectively, were included in accounts payable for unpaid capital expenditures.

During the nine months ended March 26, 2017, UNIFI completed construction of assets under a construction financing arrangement for which the aggregate present value was $13,235.

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

The following is management's discussion and analysis of certain significant factors that have affected UNIFI's operations, along with material changes in financial condition, during the periods included in the accompanying condensed consolidated financial statements. A reference to a "note" in this section refers to the accompanying notes to condensed consolidated financial statements. A reference to the "current period" refers to the three-month period ended March 25, 2018, while a reference to the "prior period" refers to the three-month period ended March 26, 2017. A reference to the "current nine-month period" refers to the nine-month period ended March 25, 2018, while a reference to the "prior nine-month period" refers to the nine-month period ended March 26, 2017. Such references may be accompanied by certain phrases for added clarity.

Our discussions in this Item 2 are based upon the more detailed discussions about our business, operations and financial condition included in the 2017 Form 10-K. These discussions focus on our results during, or as of, the three months and nine months ended March 25, 2018 and March 26, 2017, and, to the extent applicable, any material changes from the information discussed in the 2017 Form 10-K or other important intervening developments or information. These discussions should be read in conjunction with the 2017 Form 10-K for more detailed and background information.

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

Overview and Significant General Matters

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

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

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

- Net sales for the current period increased $4,971, or 3.1%, to $165,867, compared to $160,896 for the prior period, and increased $4,648, or 2.9%, when excluding the impact of foreign currency translation;
- Net sales for the current nine-month period increased $21,567, or 4.5%, to $497,587, compared to $476,020 for the prior nine-month period, and increased $19,633, or 4.1%, when excluding the impact of foreign currency translation;
- Revenues from PVA products for the current period grew 17% compared to the prior period, and represented more than 44% of consolidated net sales; for the current nine-month period, revenues from PVA products grew by more than 15% compared to the prior nine-month period, and represented more than 44% of consolidated net sales;
- Gross margin was 10.0% for the current period, compared to 13.1% for the prior period, and was 12.6% for the current nine-month period, compared to 14.0% for the prior nine-month period;
- Operating income was $1,583 for the current period, compared to $9,107 for the prior period, and was $19,530 for the current nine-month period, compared to $30,719 for the prior nine-month period; and
- Diluted EPS was $0.01 for the current period, compared to $0.50 for the prior period, and was $1.12 for the current nine-month period, compared to $1.26 for the prior nine-month period.

As further addressed below, despite an increase in net sales, UNIFI experienced a number of challenges in its third quarter that combined to have a significant negative impact on profitability. The primary challenges related to (i) persistently rising raw material costs and an inherent lag in implementing responsive price increases, (ii) suppressed demand in the Polyester and Nylon Segments, (iii) a less-profitable sales mix in all of our segments and (iv) foreign currency losses.

Key Performance Indicators and Non-GAAP Financial Measures

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

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

- Adjusted Net Income, which represents Net Income calculated under GAAP, adjusted to exclude the approximate after-tax impact of certain income or expense items (as well as specific impacts to the provision for income taxes) necessary to understand and compare the underlying results of UNIFI. Adjusted Net Income excludes certain amounts which management believes do not reflect the ongoing operations and performance of UNIFI;
- Adjusted EPS, which represents Adjusted Net Income divided by UNIFI's diluted weighted average common shares outstanding; and
- Adjusted Working Capital, which represents receivables plus inventory, less accounts payable and accrued expenses.

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

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

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

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

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

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

Non-GAAP Reconciliations

EBITDA and Adjusted EBITDA

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

	For the Three Months Ended		For the Nine Months Ended	
	March 25, 2018	March 26, 2017	March 25, 2018	March 26, 2017
Net income attributable to Unifi, Inc.	$ 176	$ 9,177	$ 20,938	$ 23,171
Interest expense, net	1,005	699	3,118	1,945
Provision (benefit) for income taxes	946	831	(684)	6,481
Depreciation and amortization expense	5,617	5,067	16,566	14,463
EBITDA	7,744	15,774	39,938	46,060
Equity in earnings of PAL	(479)	(1,345)	(2,957)	(914)
EBITDA excluding PAL	7,265	14,429	36,981	45,146
Loss on sale of business [1]	—	—	—	1,662
Adjusted EBITDA	$ 7,265	$ 14,429	$ 36,981	$ 46,808

(1) For the nine months ended March 26, 2017, UNIFI incurred a loss on the sale of its historical investment in Renewables of $1,662.

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

Adjusted Net Income and Adjusted EPS

The table below sets forth reconciliations of (i) Income before income taxes ("Pre-tax Income"), Provision for income taxes ("Tax Impact") and Net Income to Adjusted Net Income and (ii) Diluted EPS to Adjusted EPS. There were no reconciliation adjustments necessary for the three-month periods ended March 25, 2018 and March 26, 2017.

	For the Nine Months Ended March 25, 2018				For the Nine Months Ended March 26, 2017			
	Pre-tax Income	Tax Impact	Net Income	Diluted EPS	Pre-tax Income	Tax Impact	Net Income	Diluted EPS
GAAP results	$ 20,254	$ 684	$ 20,938	$ 1.12	$ 29,154	$ (6,481)	$ 23,171	$ 1.26
Certain tax valuation allowance reversal (1)	—	(3,807)	(3,807)	(0.20)	—	—	—	—
Loss on sale of business (2)	—	—	—	—	1,662	—	1,662	0.09
Adjusted results	$ 20,254	$ (3,123)	$ 17,131	$ 0.92	$ 30,816	$ (6,481)	$ 24,833	$ 1.35
Diluted weighted average common shares outstanding				18,617				18,420

(1) For the nine months ended March 25, 2018, UNIFI reversed a $3,807 valuation allowance on certain historical NOLs in connection with a tax status change unrelated to the federal tax reform legislation signed into law in December 2017.

(2) For the nine months ended March 26, 2017, UNIFI incurred a loss on the sale of its historical investment in Renewables of $1,662. There was no tax impact for this transaction as the loss was non-deductible.

Working Capital and Adjusted Working Capital

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

Results of Operations

Three Months Ended March 25, 2018 Compared to Three Months Ended March 26, 2017

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				
	March 25, 2018		March 26, 2017		
		% of Net Sales		% of Net Sales	% Change
Net sales	$ 165,867	100.0	$ 160,896	100.0	3.1
Cost of sales	149,311	90.0	139,766	86.9	6.8
Gross profit	16,556	10.0	21,130	13.1	(21.6)
Selling, general and administrative expenses	13,846	8.3	13,000	8.1	6.5
Provision (benefit) for bad debts	27	—	(92)	(0.1)	(129.3)
Other operating expense (income), net	1,100	0.7	(885)	(0.6)	(224.3)
Operating income	1,583	1.0	9,107	5.7	(82.6)
Interest expense, net	1,005	0.6	699	0.5	43.8
Equity in earnings of unconsolidated affiliates	(544)	(0.3)	(1,600)	(1.0)	(66.0)
Income before income taxes	1,122	0.7	10,008	6.2	(88.8)
Provision for income taxes	946	0.6	831	0.5	13.8
Net income including non-controlling interest	176	0.1	9,177	5.7	(98.1)
Less: net loss attributable to non-controlling interest	—	—	—	—	—
Net income attributable to Unifi, Inc.	$ 176	0.1	$ 9,177	5.7	(98.1)

Consolidated Net Sales

Consolidated net sales for the current period increased by $4,971, or 3.1%, as compared to the prior period.

Consolidated sales volumes increased 9.8%, attributable to continued growth of PVA product sales in the International Segment and plastic bottle flake and twisted yarns sales in the Polyester Segment, partially offset by sales declines for UNIFI's core yarn portfolio in the NAFTA and CAFTA-DR markets. Sales continue to expand in the International Segment as our PVA product portfolio resonates with a growing customer base and brand partners. However, both the Polyester and Nylon Segments were unfavorably impacted by lower sales volumes and a weaker sales mix. We believe the softness in the domestic environment continues to be a challenge for the textile supply chain, while our nylon business results also reflect the current global trend of declines in demand for nylon socks, ladies' hosiery and intimate apparel.

Consolidated average sales prices decreased 6.5%, attributable to disproportionate growth of lower-priced plastic bottle flake and staple fiber sales among the Polyester and International Segments, respectively, as well as a lower proportion of nylon products that carry higher selling prices. The decrease in consolidated average sales prices was partially offset by net favorable foreign currency translation compared to the prior period of approximately $300, primarily associated with the strengthening of the Chinese Renminbi ("RMB"), partially offset by the weakening of the Brazilian Real ("BRL"). PVA products comprised more than 44% of net sales for the current period, while representing approximately 40% of net sales for fiscal 2017.

Consolidated Gross Profit

Gross profit for the current period decreased by $4,574, or 21.6%, as compared to the prior period. For the Polyester Segment, the decline in gross profit was primarily due to an elevated raw material cost environment coupled with a challenging domestic landscape in which achieving corresponding selling price increases was increasingly difficult, a greater mix of lower margin product sales and incremental ramp-up costs. For the International Segment, gross profit increased due to higher volumes, but was unfavorably impacted by disproportionate growth of lower-margin products. For the Nylon Segment, gross profit decreased due in part to a less favorable sales mix and lower sales volumes. Consolidated gross profit for the current period also included approximately $100 of net favorable foreign currency translation reflected mainly in the International Segment.

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

Polyester Segment

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

	For the Three Months Ended				
	March 25, 2018		March 26, 2017		
		% of Net Sales		% of Net Sales	% Change
Net sales	$ 88,763	100.0	$ 90,267	100.0	(1.7)
Cost of sales	83,948	94.6	81,730	90.5	2.7
Gross profit	4,815	5.4	8,537	9.5	(43.6)
Depreciation expense	4,022	4.6	3,636	4.0	10.6
Segment Profit	$ 8,837	10.0	$ 12,173	13.5	(27.4)
Segment net sales as a percentage of consolidated amounts	53.5%		56.1%		
Segment Profit as a percentage of consolidated amounts	40.8%		47.4%		

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

Net sales for the prior period	$ 90,267
Decrease in sales volumes	(952)
Net change in average selling price and sales mix	(552)
Net sales for the current period	$ 88,763

The decrease in net sales for the Polyester Segment was primarily attributable to lower sales of textured, dyed and beamed products, partially offset by higher sales of plastic bottle flake and POY. The higher sales of plastic bottle flake and POY negatively impacted average selling price and sales mix.

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

Segment Profit for the prior period	$ 12,173
Net decrease in underlying margins	(3,207)
Decrease in sales volumes	(129)
Segment Profit for the current period	$ 8,837

The decrease in Segment Profit for the Polyester Segment was primarily attributable to (i) raw material cost increases that could not be effectively offset with corresponding selling price increases and (ii) the unfavorable sales mix shift towards lower-margin products discussed above in the net sales analysis. UNIFI does attempt to pass on to its customers rises in raw material costs but at times it cannot and, when it can, there typically is a time lag that adversely affects UNIFI during one or more periods. Certain customers are subject to an index-based pricing model in which UNIFI's prices are adjusted based on the change in the cost of raw materials in the prior quarter. Pricing adjustments for other customers must be negotiated independently. 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 fiscal quarter of the raw material price increase for its index priced customers or within two fiscal quarters of the raw material price increase for its non-index priced customers.

Nylon Segment

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

	For the Three Months Ended				
	March 25, 2018		March 26, 2017		
		% of Net Sales		% of Net Sales	% Change
Net sales	$ 24,036	100.0	$ 26,987	100.0	(10.9)
Cost of sales	23,023	95.8	24,656	91.4	(6.6)
Gross profit	1,013	4.2	2,331	8.6	(56.5)
Depreciation expense	560	2.3	542	2.0	3.3
Segment Profit	$ 1,573	6.5	$ 2,873	10.6	(45.2)
Segment net sales as a percentage of consolidated amounts	14.5%		16.8%		
Segment Profit as a percentage of consolidated amounts	7.3%		11.2%		

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

Net sales for the prior period	$	26,987
Decrease in sales volumes		(3,551)
Net change in average selling price and sales mix		600
Net sales for the current period	$	24,036

The decrease in net sales for the Nylon Segment was primarily attributable to lower sales volumes as a result of soft domestic market conditions in which nylon socks, ladies' hosiery and intimates have experienced demand declines, partially offset by an improved average selling price/sales mix.

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

Segment Profit for the prior period	$	2,873
Net decrease in underlying margins		(922)
Decrease in sales volumes		(378)
Segment Profit for the current period	$	1,573

The decrease in Segment Profit for the Nylon Segment was attributable to a less profitable sales mix and lower volume.

International Segment

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

	For the Three Months Ended						
	March 25, 2018			March 26, 2017			
			% of Net Sales			% of Net Sales	% Change
Net sales	$	51,989	100.0	$	42,345	100.0	22.8
Cost of sales		41,317	79.5		32,159	75.9	28.5
Gross profit		10,672	20.5		10,186	24.1	4.8
Depreciation expense		436	0.9		317	0.7	37.5
Segment Profit	$	11,108	21.4	$	10,503	24.8	5.8
Segment net sales as a percentage of consolidated amounts		31.3%			26.3%		
Segment Profit as a percentage of consolidated amounts		51.3%			40.9%		

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

Net sales for the prior period	$	42,345
Increase in sales volumes		13,757
Net favorable foreign currency translation effects (RMB and BRL)		302
Net change in average selling price and sales mix		(4,415)
Net sales for the current period	$	51,989

The increase in net sales for the International Segment was attributable to (i) higher sales volumes from our Asian subsidiaries, primarily relating to our recycled polyester Chip and staple fiber products, with strong demand for REPREVE® and (ii) favorable foreign currency translation due to the strengthening of the RMB versus the U.S. Dollar ("USD"). These benefits were partially offset by (a) a decrease in the average selling price in Asia due to a greater mix of lower-priced product sales and (b) the weakening of the BRL versus the USD.

The RMB weighted average exchange rate was 6.36 RMB/USD and 6.89 RMB/USD for the current period and the prior period, respectively. The BRL weighted average exchange rate was 3.25 BRL/USD and 3.14 BRL/USD for the current period and the prior period, respectively.

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

Segment Profit for the prior period	$	10,503
Increase in sales volumes		3,405
Net favorable foreign currency translation effects (RMB and BRL)		65
Net decrease in underlying margins		(2,865)
Segment Profit for the current period	$	11,108

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

Consolidated Selling, General and Administrative Expenses

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

SG&A expenses for the prior period	$	13,000
Increase in compensation expenses		1,674
Other net decreases		(828)
SG&A expenses for the current period	$	13,846

Total SG&A expenses were higher for the current period compared to the prior period, primarily as a result of an increase in compensation expenses due to talent acquisition and higher incentive compensation expenses, partially offset by other net decreases primarily due to lower fees paid to external service providers in the current period.

Consolidated Provision (Benefit) for Bad Debts

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

Consolidated Other Operating Expense (Income), Net

The change in other operating expense (income), net is primarily attributable to foreign currency losses in the current period, mostly resulting from translation of USDs held by our subsidiary in China, while the prior period includes foreign currency gains stemming from our operations in Brazil.

Consolidated Interest Expense, Net

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

	For the Three Months Ended	
	March 25, 2018	March 26, 2017
Interest and fees on the ABL Facility	$ 952	$ 723
Other interest	196	238
Subtotal of interest on debt obligations	1,148	961
Other components of interest expense	39	(136)
Total interest expense	1,187	825
Interest income	(182)	(126)
Interest expense, net	$ 1,005	$ 699

Consolidated Earnings from Unconsolidated Affiliates

The components of earnings from unconsolidated affiliates are as follows:

	For the Three Months Ended	
	March 25, 2018	March 26, 2017
Earnings from PAL	$ (479)	$ (1,345)
Earnings from nylon joint ventures	(65)	(255)
Total equity in earnings of unconsolidated affiliates	$ (544)	$ (1,600)
As a percentage of consolidated income before income taxes	48.5%	16.0%

UNIFI's 34% share of PAL's earnings decreased in the current period versus the prior period primarily due to margin pressures stemming from rising cotton costs and an inability to quickly raise selling prices accordingly. The earnings from the nylon joint ventures experienced a decrease primarily due to lower volumes for the current period due to overall softness in the nylon market.

Consolidated Income Taxes

The change in consolidated income taxes is as follows:

	For the Three Months Ended	
	March 25, 2018	March 26, 2017
Provision for income taxes	$ 946	$ 831
Effective tax rate	84.3%	8.3%

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

The effective tax rate for the three months ended March 26, 2017 is lower than the U.S. statutory tax rate primarily due to foreign income being taxed at lower rates and a decrease in the valuation allowance for the Company's investment in PAL, partially offset by losses in tax jurisdictions for which no tax benefit could be recognized and state and local income taxes net of federal benefits. Additionally, the effective tax rate for the three months ended March 26, 2017 includes the benefit of increased research and development credits, partially offset by a corresponding reduction in the domestic production activities deduction.

Consolidated Net Income

Net Income for the current period was $176, or $0.01 per diluted share, compared to $9,177, or $0.50 per diluted share, for the prior period. The decrease was primarily attributable to (i) higher operating expenses stemming primarily from elevated raw material costs, (ii) a weaker sales mix, (iii) comparably unfavorable foreign currency impacts as discussed above under Consolidated Other Operating Expense (Income), Net, (iv) lower earnings from PAL and (v) a higher effective tax rate.

Consolidated Adjusted EBITDA

Adjusted EBITDA for the current period was $7,265, compared to $14,429 for the prior period. The decrease was primarily attributable to higher operating expenses driven primarily by an increase in raw material costs and comparably unfavorable foreign currency impacts, as addressed in the discussions above.

Results of Operations

Nine Months Ended March 25, 2018 Compared to Nine Months Ended March 26, 2017

Consolidated Overview

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

	For the Nine Months Ended				
	March 25, 2018		March 26, 2017		
		% of Net Sales		% of Net Sales	% Change
Net sales	$ 497,587	100.0	$ 476,020	100.0	4.5
Cost of sales	435,063	87.4	409,213	86.0	6.3
Gross profit	62,524	12.6	66,807	14.0	(6.4)
Selling, general and administrative expenses	41,335	8.3	37,278	7.8	10.9
Benefit for bad debts	(104)	—	(554)	(0.1)	(81.2)
Other operating expense (income), net	1,763	0.4	(636)	(0.1)	(377.2)
Operating income	19,530	3.9	30,719	6.4	(36.4)
Interest expense, net	3,118	0.6	1,976	0.4	57.8
Loss on sale of business	—	—	1,662	0.3	nm
Equity in earnings of unconsolidated affiliates	(3,842)	(0.8)	(2,073)	(0.4)	85.3
Income before income taxes	20,254	4.1	29,154	6.1	(30.5)
(Benefit) provision for income taxes	(684)	(0.1)	6,481	1.3	(110.6)
Net income including non-controlling interest	20,938	4.2	22,673	4.8	(7.7)
Less: net loss attributable to non-controlling interest	—	—	(498)	(0.1)	(100.0)
Net income attributable to Unifi, Inc.	$ 20,938	4.2	$ 23,171	4.9	(9.6)

nm – Not meaningful

Consolidated Net Sales

Consolidated net sales for the current nine-month period increased by $21,567, or 4.5%, as compared to the prior nine-month period.

Consolidated sales volumes increased 10.6%, attributable to continued growth in sales of recycled polyester Chip and plastic bottle flake in the Polyester Segment and staple fiber and other PVA products in the International Segment. Sales continue to expand in the International Segment as our PVA product portfolio resonates with a growing customer base and brand partners. The increase in sales volumes was partially offset by soft yarn sales in the Polyester and Nylon Segments. We believe the softness in the domestic environment continues to be a challenge for the textile supply chain. Our nylon business results also reflect the current global trend of declines in demand for nylon socks, ladies' hosiery and intimate apparel.

Consolidated average sales prices decreased 5.8%, attributable to disproportionate growth of lower-priced recycled polyester Chip, plastic bottle flake and staple fiber among the Polyester and International Segments, as well as a lower proportion of nylon products that carry higher selling prices. The decrease in consolidated sales pricing was partially offset by a benefit from net favorable foreign currency translation compared to the prior period of approximately $1,900, primarily associated with the strengthening of the RMB and the BRL.

Consolidated Gross Profit

Gross profit for the current nine-month period decreased by $4,283, or 6.4%, as compared to the prior nine-month period. For the International Segment, gross profit increased due to sales growth; however, margins were lower due to a less favorable sales mix and pressure from higher costs. For the Polyester Segment, the decline in gross profit was primarily due to higher raw material costs coupled with a lack of corresponding selling price increases, a greater mix of lower margin product sales and incremental depreciation, primarily due to expanded recycling operations. For the Nylon Segment, gross profit decreased due in part to a less favorable sales mix and lower sales volumes. Consolidated gross profit for the current nine-month period also included approximately $500 of favorable foreign currency translation.

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

Polyester Segment

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

	For the Nine Months Ended				
	March 25, 2018		March 26, 2017		
		% of Net Sales		% of Net Sales	% Change
Net sales	$ 266,817	100.0	$ 261,623	100.0	2.0
Cost of sales	244,513	91.6	234,165	89.5	4.4
Gross profit	22,304	8.4	27,458	10.5	(18.8)
Depreciation expense	11,862	4.4	10,128	3.9	17.1
Segment Profit	$ 34,166	12.8	$ 37,586	14.4	(9.1)
Segment net sales as a percentage of consolidated amounts	53.6%		55.0%		
Segment Profit as a percentage of consolidated amounts	44.1%		47.1%		

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

Net sales for the prior nine-month period	$ 261,623
Increase in sales volumes	11,072
Decrease in average selling price and change in sales mix	(5,878)
Net sales for the current nine-month period	$ 266,817

The increase in net sales for the Polyester Segment was primarily attributable to higher sales of plastic bottle flake, POY and recycled polyester Chip. However, these changes also drove a weakening of the Polyester Segment sales mix in combination with lower sales volumes of higher-priced textured yarns.

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

Segment Profit for the prior nine-month period	$ 37,586
Net decrease in underlying margins	(5,009)
Increase in sales volumes	1,589
Segment Profit for the current nine-month period	$ 34,166

The decrease in Segment Profit for the Polyester Segment was primarily attributable to raw material cost pressures that were not effectively offset by corresponding selling price increases, along with the unfavorable sales mix shift towards lower-margin products discussed above in the net sales analysis. UNIFI does attempt to pass on to its customers rises in raw material costs but at times it cannot and, when it can, there typically is a time lag that adversely affects UNIFI during one or more periods. Certain customers are subject to an index-based pricing model in which UNIFI's prices are adjusted based on the change in the cost of raw materials in the prior quarter. Pricing adjustments for other customers must be negotiated independently. 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 fiscal quarter of the raw material price increase for its index priced customers or within two fiscal quarters of the raw material price increase for its non-index priced customers.

Nylon Segment

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

	For the Nine Months Ended				
	March 25, 2018		March 26, 2017		
		% of Net Sales		% of Net Sales	% Change
Net sales	$ 75,966	100.0	$ 83,784	100.0	(9.3)
Cost of sales	68,563	90.3	75,693	90.3	(9.4)
Gross profit	7,403	9.7	8,091	9.7	(8.5)
Depreciation expense	1,649	2.2	1,582	1.9	4.2
Segment Profit	$ 9,052	11.9	$ 9,673	11.6	(6.4)
Segment net sales as a percentage of consolidated amounts	15.3%		17.6%		
Segment Profit as a percentage of consolidated amounts	11.7%		12.1%		

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

Net sales for the prior nine-month period	$ 83,784
Decrease in sales volumes	(6,947)
Decrease in average selling price and change in sales mix	(871)
Net sales for the current nine-month period	$ 75,966

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

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

Segment Profit for the prior nine-month period	$ 9,673
Decrease in sales volumes	(802)
Increase in underlying margins	181
Segment Profit for the current nine-month period	$ 9,052

The decrease in Segment Profit for the Nylon Segment was attributable to a less profitable sales mix and lower sales volumes, partially offset by periods of improved cost management.

International Segment

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

	For the Nine Months Ended				
	March 25, 2018		March 26, 2017		
		% of Net Sales		% of Net Sales	% Change
Net sales	$ 151,694	100.0	$ 126,557	100.0	19.9
Cost of sales	119,050	78.5	94,652	74.8	25.8
Gross profit	32,644	21.5	31,905	25.2	2.3
Depreciation expense	1,249	0.8	791	0.6	57.9
Segment Profit	$ 33,893	22.3	$ 32,696	25.8	3.7
Segment net sales as a percentage of consolidated amounts	30.5%		26.6%		
Segment Profit as a percentage of consolidated amounts	43.7%		40.9%		

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

Net sales for the prior nine-month period	$ 126,557
Increase in sales volumes	30,456
Net favorable foreign currency translation effects (BRL and RMB)	1,913
Decrease in average selling price and change in sales mix	(7,232)
Net sales for the current nine-month period	$ 151,694

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

The RMB weighted average exchange rate was 6.55 RMB/USD and 6.80 RMB/USD for the current nine-month period and the prior nine-month period, respectively. The BRL weighted average exchange rate was 3.21 BRL/USD and 3.22 BRL/USD for the current nine-month period and the prior nine-month period, respectively.

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

Segment Profit for the prior nine-month period	$	32,696
Increase in sales volumes		7,868
Net favorable foreign currency translation effects (BRL and RMB)		492
Decrease in underlying margins		(7,163)
Segment Profit for the current nine-month period	$	33,893

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

Consolidated Selling, General and Administrative Expenses

The change in SG&A expenses is as follows:

SG&A expenses for the prior nine-month period	$	37,278
Increase in compensation expenses		4,789
Other net decreases		(732)
SG&A expenses for the current nine-month period	$	41,335

Total SG&A expenses were higher for the current nine-month period compared to the prior nine-month period, primarily as a result of an increase in compensation expenses due to talent acquisition and incentive compensation, partially offset by other net decreases primarily due to lower fees paid to external service providers in the current nine-month period.

Consolidated Benefit for Bad Debts

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

Consolidated Other Operating Expense (Income), Net

The change in other operating expense (income), net is primarily attributable to foreign currency losses in the current period, mostly resulting from changes in the translation of USDs held by our subsidiary in China, while the prior period includes foreign currency gains stemming from our operations in Brazil.

Consolidated Interest Expense, Net

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

	For the Nine Months Ended			
	March 25, 2018		March 26, 2017	
Interest and fees on the ABL Facility	$	2,789	$	2,177
Other interest		633		752
Subtotal of interest on debt obligations		3,422		2,929
Other components of interest expense		140		(498)
Total interest expense		3,562		2,431
Interest income		(444)		(455)
Interest expense, net	$	3,118	$	1,976

Loss on Sale of Business

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

Consolidated Earnings from Unconsolidated Affiliates

The components of earnings from unconsolidated affiliates are as follows:

	For the Nine Months Ended	
	March 25, 2018	**March 26, 2017**
Earnings from PAL	$ (2,957)	$ (914)
Earnings from nylon joint ventures	(885)	(1,159)
Total equity in earnings of unconsolidated affiliates	$ (3,842)	$ (2,073)
As a percentage of consolidated income before income taxes	19.0%	7.1%

UNIFI's 34% share of PAL's earnings increased in the current nine-month period versus the prior nine-month period, primarily attributable to improved operating margins and lower depreciation expense during the first half of fiscal 2018. The earnings from the nylon joint ventures experienced a decrease primarily due to softness in the nylon market, consistent with the results of the Nylon Segment, as well as higher raw material costs.

Consolidated Income Taxes

The change in consolidated income taxes is as follows:

	For the Nine Months Ended	
	March 25, 2018	**March 26, 2017**
(Benefit) provision for income taxes	$ (684)	$ 6,481
Effective tax rate	(3.4)%	22.2%

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

The effective tax rate for the nine months ended March 26, 2017 is lower than the U.S. statutory tax rate primarily due to foreign income being taxed at lower rates and a decrease in the valuation allowance for the Company's investment in PAL, partially offset by losses in tax jurisdictions for which no tax benefit could be recognized and state and local income taxes net of federal benefits. Additionally, the effective tax rate for the nine months ended March 26, 2017 includes the benefit of increased research and development credits, partially offset by a corresponding reduction in the domestic production activities deduction.

Consolidated Net Income

Net Income for the current nine-month period was $20,938, or $1.12 per diluted share, compared to $23,171, or $1.26 per diluted share, for the prior nine-month period. The decrease was primarily attributable to higher operating expenses, higher interest expense, and comparably unfavorable foreign currency impacts, partially offset by a significantly lower effective tax rate, higher earnings from PAL and a loss on sale of business in the prior nine-month period.

Consolidated Adjusted EBITDA

Adjusted EBITDA for the current nine-month period was $36,981, compared to $46,808 for the prior nine-month period. The decrease was primarily attributable to higher operating expenses and comparably unfavorable foreign currency impacts, as addressed in the discussions above.

Liquidity and Capital Resources

UNIFI's primary capital requirements are for working capital, capital expenditures, debt service and stock repurchases. UNIFI's primary sources of capital are cash generated from operations and borrowings available under the ABL Revolver. For the current nine-month period, cash generated from operations was $24,989, and, at March 25, 2018, excess availability under the ABL Revolver was $59,558.

As of March 25, 2018, all of UNIFI's $126,382 of debt obligations were guaranteed by certain of its domestic operating subsidiaries, while nearly all of UNIFI's cash and cash equivalents were held by its foreign subsidiaries. Cash and cash equivalents held by such foreign subsidiaries may not be presently available to fund UNIFI's domestic capital requirements, including its domestic debt obligations. UNIFI employs a variety of tax planning and financing strategies to ensure that its worldwide cash is available in the locations where it is needed. The following table presents a summary of cash and cash equivalents, liquidity, working capital and total debt obligations as of March 25, 2018 for domestic and foreign operations:

	Domestic	Foreign	Total
Cash and cash equivalents	$ 370	$ 40,206	$ 40,576
Borrowings available under financing arrangements	59,558	—	59,558
Liquidity	$ 59,928	$ 40,206	$ 100,134
Working capital	$ 83,074	$ 107,546	$ 190,620
Total debt obligations	$ 126,382	$ —	$ 126,382

Debt Obligations

ABL Facility

On March 26, 2015, Unifi, Inc. and its subsidiary, Unifi Manufacturing, Inc., entered into an Amended and Restated Credit Agreement (as subsequently amended, the "Amended Credit Agreement") for a $200,000 senior secured credit facility (the ABL Facility) with a syndicate of lenders. The ABL Facility consists of a $100,000 revolving credit facility (the ABL Revolver) and a term loan that can be reset up to a maximum amount of $100,000, once per fiscal year, if certain conditions are met (the ABL Term Loan). The ABL Facility has a maturity date of March 26, 2020.

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

If excess availability under the ABL Revolver falls below the defined Trigger Level, a financial covenant requiring the Loan Parties to maintain a fixed charge coverage ratio on a monthly basis of at least 1.05 to 1.00 becomes effective. The Trigger Level as of March 25, 2018 was $23,438. In addition, the ABL Facility contains restrictions on particular payments and investments, including certain restrictions on the payment of dividends and share repurchases. Subject to specific provisions, the ABL Term Loan may be prepaid at par, in whole or in part, at any time before the maturity date, at UNIFI's discretion.

ABL Facility borrowings bear interest at the London Interbank Offer Rate ("LIBOR") plus an applicable margin of 1.50% to 2.00%, or the Base Rate (as defined below) plus an applicable margin of 0.50% to 1.00%, with interest currently being paid on a monthly basis. The applicable margin is based on (i) the excess availability under the ABL Revolver and (ii) the consolidated leverage ratio, calculated as of the end of each fiscal quarter. The Base Rate means the greater of (a) the prime lending rate as publicly announced from time to time by Wells Fargo Bank, National Association, (b) the Federal Funds Rate plus 0.50% or (c) LIBOR plus 1.00%. UNIFI's ability to borrow under the ABL Revolver is limited to a borrowing base equal to specified percentages of eligible accounts receivable and inventory and is subject to certain conditions and limitations. There is also a monthly unused line fee under the ABL Revolver of 0.25%. As of March 25, 2018, UNIFI was in compliance with all financial covenants in the Amended Credit Agreement, and the excess availability under the ABL Revolver was $59,558. At March 25, 2018, the fixed charge coverage ratio was 1.20 to 1.00 and UNIFI had $400 of standby letters of credit, none of which had been drawn upon.

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

Summary of Debt Obligations

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

	Scheduled Maturity Date	Weighted Average Interest Rate as of March 25, 2018	Principal Amounts as of March 25, 2018	Principal Amounts as of June 25, 2017
ABL Revolver	March 2020	3.1%	$ 19,000	$ 9,300
ABL Term Loan (1)	March 2020	3.4%	87,500	95,000
Capital lease obligations	(2)	3.7%	19,882	25,168
Total debt			126,382	129,468
Current portion of capital lease obligations			(7,076)	(7,060)
Current portion of other long-term debt			(10,000)	(10,000)
Unamortized debt issuance costs			(748)	(1,026)
Total long-term debt			$ 108,558	$ 111,382

(1) Includes the effects of interest rate swaps.
(2) Scheduled maturity dates for capital lease obligations range from July 2018 to November 2027.

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

Scheduled Debt Maturities

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

	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Thereafter
ABL Revolver	$ —	$ —	$ 19,000	$ —	$ —	$ —
ABL Term Loan	2,500	10,000	75,000	—	—	—
Capital lease obligations	1,774	6,996	5,519	2,624	2,417	552
Total	$ 4,274	$ 16,996	$ 99,519	$ 2,624	$ 2,417	$ 552

Working Capital

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

	March 25, 2018	June 25, 2017
Cash and cash equivalents	$ 40,576	$ 35,425
Receivables, net	87,427	81,121
Inventories	121,293	111,405
Other current assets	17,823	15,686
Accounts payable	(41,006)	(41,499)
Accrued expenses	(16,039)	(16,144)
Other current liabilities	(19,454)	(18,411)
Working capital	$ 190,620	$ 167,583
Less: Cash and cash equivalents	(40,576)	(35,425)
Less: Other current assets	(17,823)	(15,686)
Less: Other current liabilities	19,454	18,411
Adjusted Working Capital	$ 151,675	$ 134,883

Working capital increased from $167,583 as of June 25, 2017 to $190,620 as of March 25, 2018, while Adjusted Working Capital increased from $134,883 to $151,675. Working capital and Adjusted Working Capital are within our range of expectations based on the composition of the underlying business and global structure.

The increase in cash and cash equivalents reflects the strong performance of our international subsidiaries and the intent to leave cash available in foreign jurisdictions for future expansion. The increase in receivables, net is attributable to higher sales associated with our Asian operation. The increase in inventories is primarily attributable to increased international sales activity, the impact of higher raw material costs and strategic inventory purchases in Brazil due to the timing of favorable tariffs. The increase in other current assets is attributable to an increase in income taxes receivable. The decreases in accounts payable and accrued expenses are insignificant. The change in other current liabilities is due to taxes payable for certain of our foreign subsidiaries in connection with strong profits.

Capital Projects

During the current nine-month period, UNIFI invested approximately $17,100 in capital projects, primarily relating to routine maintenance expenditures as well as the completion and start-up of the fourth production line in the REPREVE® Recycling Center, which is intended to increase UNIFI's capacity to produce recycled polyester Chip for internal consumption and external sales.

Through the remainder of fiscal 2018, UNIFI expects to invest an additional $10,900 in capital projects (for an aggregate fiscal 2018 estimate of $28,000), which include (i) making further improvements in production capabilities and technology enhancements in the Americas and (ii) routine annual maintenance capital expenditures to allow continued efficient production.

The total amount ultimately invested in fiscal 2018 could be more or less than the anticipated amount, depending on the timing and scale of contemplated initiatives and other factors, and is expected to be funded by a combination of cash from operations and borrowings under the ABL Revolver. UNIFI expects the recent capital projects to provide benefits to future profitability. The additional assets from these capital projects consist primarily of machinery and equipment.

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

Stock Repurchase Program

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

UNIFI made no repurchases of its shares of common stock during the current nine-month period. As of March 25, 2018, UNIFI had repurchased a total of 806 shares, at an average price of $27.79 (for a total of $22,409, inclusive of commission costs) pursuant to the 2014 SRP. As of March 25, 2018, $27,603 remained available for share repurchases under the 2014 SRP.

Liquidity Summary

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

Cash Provided by Operating Activities

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

	For the Nine Months Ended	
	March 25, 2018	March 26, 2017
Net income including non-controlling interest	$ 20,938	$ 22,673
Loss on sale of business	—	1,662
Equity in earnings of unconsolidated affiliates	(3,842)	(2,073)
Depreciation and amortization expense	16,844	14,887
Non-cash compensation expense	4,878	2,473
Deferred income taxes	(8,441)	6,305
Subtotal	30,377	45,927
Distributions received from unconsolidated affiliates	11,226	1,500
Other changes	(16,614)	(18,141)
Net cash provided by operating activities	$ 24,989	$ 29,286

The decrease in net cash provided by operating activities from the prior nine-month period to the current nine-month period was primarily due to lower consolidated earnings, consistent with the comparable decrease in Adjusted EBITDA discussed above, and the change in deferred income taxes. This decrease was partially offset by distributions received from PAL of $8,976 and a comparably lower build of working capital.

Cash Used in Investing Activities and Financing Activities

UNIFI utilized $17,091 for investing activities and used $3,464 (net) from financing activities during the current nine-month period.

Investing activities include $17,091 for capital expenditures, primarily relating to ongoing maintenance capital expenditures and the completion and start-up of the fourth production line in the REPREVE® Recycling Center, which is intended to increase UNIFI's capacity to produce recycled polyester Chip for internal consumption and external sales.

Significant financing activities include payments of $5,286 for capital lease obligations, partially offset by $2,200 for net borrowings against long-term debt.

Contractual Obligations

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

There have been no material changes in the scheduled maturities of UNIFI's contractual obligations as disclosed in the table under the heading "Contractual Obligations" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2017 Form 10-K.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The SEC has defined a company's most critical accounting policies as those involving accounting estimates that require management to make assumptions about matters that are highly uncertain at the time and where different reasonable estimates or changes in the accounting estimates from quarter to quarter could materially impact the presentation of the financial statements. UNIFI's critical accounting policies are discussed in the 2017 Form 10-K. There were no material changes to these policies during the current period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

UNIFI is exposed to interest rate risk through its borrowing activities. As of March 25, 2018, UNIFI had borrowings under its ABL Revolver and ABL Term Loan that totaled $106,500 and contain variable rates of interest; however, UNIFI hedges a significant portion of such interest rate variability using interest rate swaps. As of March 25, 2018, after considering the variable rate debt obligations that have been hedged and UNIFI's outstanding debt obligations with fixed rates of interest, UNIFI's sensitivity analysis indicates that a 50-basis point increase in LIBOR as of March 25, 2018 would result in an increase in annual interest expense of less than $200.

Foreign Currency Exchange Rate Risk

UNIFI conducts its business in various foreign countries and in various foreign currencies. Each of UNIFI's subsidiaries may enter into transactions (sales, purchases, fixed purchase commitments, etc.) that are denominated in currencies other than the subsidiary's functional currency and thereby expose UNIFI to foreign currency exchange rate risk. UNIFI may enter into foreign currency forward contracts to hedge this exposure. UNIFI may also enter into foreign currency forward contracts to hedge its exposure for certain equipment or inventory purchase commitments. As of March 25, 2018, UNIFI had no outstanding foreign currency forward contracts.

A significant portion of raw materials purchased by UNIFI's Brazilian subsidiary are denominated in USD, requiring UNIFI to regularly exchange BRL. During recent fiscal years, UNIFI was negatively impacted by a devaluation of the BRL. Predicting fluctuations in the BRL is impracticable. Discussion and analysis surrounding the impact of fluctuations of the BRL as well as the RMB on UNIFI's results of operations are included above in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

As of March 25, 2018, UNIFI's subsidiaries outside the United States, whose functional currency is other than the USD, held approximately 17.0% of UNIFI's consolidated total assets. UNIFI does not enter into foreign currency derivatives to hedge its net investment in its foreign operations.

As of March 25, 2018, $35,349, or 87.1%, of UNIFI's cash and cash equivalents was held outside the United States, of which $30,579 was held in USD and $3,398 was held in BRL.

Raw Material and Commodity Risks

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

During the third quarter of fiscal 2018, UNIFI experienced elevated polyester raw material costs in connection with heightened petroleum prices. In combination with a difficult operating environment characterized by suppressed demand and lower volumes in the domestic markets, where corresponding price increases were not achieved, these costs drove a significant decline in gross profit for the third quarter, and, if such costs continue to rise, further gross profit pressure can be expected.

Other Risks

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

Item 4. Controls and Procedures

As of March 25, 2018, an evaluation of the effectiveness of UNIFI's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was performed under the supervision and with the participation of UNIFI's management, including the principal executive officer and principal financial officer. Based on that evaluation, UNIFI's principal executive officer and principal financial officer concluded that UNIFI's disclosure controls and procedures are effective to ensure that information required to be disclosed by UNIFI in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that information required to be disclosed by UNIFI in the reports it files or submits under the Exchange Act is accumulated and communicated to UNIFI's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in UNIFI's internal control over financial reporting during the three months ended March 25, 2018 that have materially affected, or are reasonably likely to materially affect, UNIFI's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

Item 6. Exhibits

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)).
10.1+*	Amendment to the Unifi, Inc. Supplemental Key Employee Retirement Plan.
31.1+	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1++	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2++	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101+	The following financial information (unaudited) from Unifi, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 25, 2018, filed May 2, 2018, formatted in eXtensible Business Reporting Language: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.

+ Filed herewith.
++ Furnished herewith.
* Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

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

UNIFI, INC.
(Registrant)

Date: May 2, 2018

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

Exhibit 10.1

AMENDMENT
TO THE
UNIFI, INC. SUPPLEMENTAL KEY EMPLOYEE RETIREMENT PLAN

WHEREAS, Unifi, Inc. established the Unifi, Inc. Supplemental Key Employee Retirement Plan (the “Plan”), an unfunded supplemental retirement plan for the purpose of providing supplemental retirement benefits to a select group of management employees;

WHEREAS the Plan was originally effective as of July 26, 2006 and was amended effective as of January 1, 2009; and

WHEREAS, Unifi, Inc. now desires to amend the Plan to change the investment fund used to adjust Plan account balances.

NOW, THEREFORE, Unifi, Inc. does hereby amend the Plan, effective as of December 31, 2017, as follows:

1. Section 4.2(b) is amended in its entirety to read as follows:

“(b) Account Adjustments. Each Participant’s SERP Account shall be adjusted for each Valuation Period as if such SERP Account had been invested in the Vanguard Federal Money Market Fund (VMFXX).”

2. Except as expressly or by necessary implication amended hereby, the Plan shall continue in full force and effect.

IN WITNESS WHEREOF, the undersigned authorized officer of the Company has executed this instrument on behalf of the Participating Employers as of the 23rd day of January, 2018.

UNIFI, INC.

By: /s/ John D. Vegas
Name: John D. Vegas
Title: Executive Vice President and
Chief Human Resources Officer

Exhibit 31.1

CERTIFICATION

I, Kevin D. Hall, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 2, 2018

/s/ KEVIN D. HALL
Kevin D. Hall
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Jeffrey C. Ackerman, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 2, 2018

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Unifi, Inc. (the “Company”) for the period ended March 25, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kevin D. Hall, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 2, 2018

/s/ KEVIN D. HALL
Kevin D. Hall
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Unifi, Inc. (the “Company”) for the period ended March 25, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeffrey C. Ackerman, Executive Vice President & Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date:May 2, 2018

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