UNIFI INC
Form 10-Q
November 01, 2017
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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 September 24, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 1-10542

UNIFI, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| New York | 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 October 26, 2017, there were 18,268,336 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,” “estimate,” “project,” “expect,” “intend,” “seek,” “strive” and words of similar import, or the negative of such words, identify o 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 ENDED SEPTEMBER 24, 2017

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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)

| | September 24, 2017 | June 25, 2017 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 42,391 | $ 35,425 |
| Receivables, net | 79,924 | 81,121 |
| Inventories | 118,534 | 111,405 |
| Income taxes receivable | 9,713 | 9,218 |
| Other current assets | 6,921 | 6,468 |
| Total current assets | 257,483 | 243,637 |
| Property, plant and equipment, net | 203,586 | 203,388 |
| Deferred income taxes | 2,195 | 2,194 |
| Investments in unconsolidated affiliates | 115,427 | 119,513 |
| Other non-current assets | 2,413 | 2,771 |
| Total assets | $ 581,104 | $ 571,503 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Accounts payable | $ 41,921 | $ 41,499 |
| Accrued expenses | 15,341 | 16,144 |
| Income taxes payable | 1,539 | 1,351 |
| Current portion of long-term debt | 17,065 | 17,060 |
| Total current liabilities | 75,866 | 76,054 |
| Long-term debt | 107,486 | 111,382 |
| Other long-term liabilities | 11,253 | 11,804 |
| Deferred income taxes | 12,375 | 11,457 |
| Total liabilities | 206,980 | 210,697 |
| | | |
| Commitments and contingencies | | |
| | | |
| Common stock, $0.10 par value (500,000,000 shares authorized; 18,261,067 and 18,229,777 shares issued and outstanding as of September 24, 2017 and June 25, 2017, respectively) | 1,826 | 1,823 |
| Capital in excess of par value | 53,104 | 51,923 |
| Retained earnings | 348,900 | 339,940 |
| Accumulated other comprehensive loss | (29,706 ) | (32,880 ) |
| Total Unifi, Inc. shareholders' equity | 374,124 | 360,806 |
| Non-controlling interest | — | — |
| Total shareholders' equity | 374,124 | 360,806 |
| Total liabilities and shareholders' equity | $ 581,104 | $ 571,503 |

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

| | For the Three Months Ended | |
|---|---|---|
| | September 24, 2017 | September 25, 2016 |
| Net sales | $164,242 | $159,969 |
| Cost of sales | 140,950 | 136,422 |
| Gross profit | 23,292 | 23,547 |
| Selling, general and administrative expenses | 12,863 | 11,410 |
| Benefit for bad debts | (59) | (367) |
| Other operating expense (income), net | 315 | (70) |
| Operating income | 10,173 | 12,574 |
| Interest income | (81) | (146) |
| Interest expense | 1,185 | 692 |
| Equity in earnings of unconsolidated affiliates | (3,087) | (840) |
| Income before income taxes | 12,156 | 12,868 |
| Provision for income taxes | 3,196 | 3,726 |
| Net income including non-controlling interest | 8,960 | 9,142 |
| Less: net loss attributable to non-controlling interest | — | (261) |
| Net income attributable to Unifi, Inc. | $8,960 | $9,403 |
| | | |
| Net income attributable to Unifi, Inc. per common share: | | |
| Basic | $0.49 | $0.52 |
| Diluted | $0.48 | $0.51 |

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

| | For the Three Months Ended September 24, 2017 | September 25, 2016 |
|---|---|---|
| Net income including non-controlling interest | $8,960 | $ 9,142 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 2,865 | (579 ) |
| Foreign currency translation adjustments for an unconsolidated affiliate | (106 ) | (243 ) |
| Changes in interest rate swaps, net of tax of $0 and $0, respectively | 415 | 19 |
| Other comprehensive income (loss), net | 3,174 | (803 ) |
| Comprehensive income including non-controlling interest | 12,134 | 8,339 |
| Less: comprehensive loss attributable to non-controlling interest | — | (261 ) |
| Comprehensive income attributable to Unifi, Inc. | $12,134 | $ 8,600 |

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

| | For the Three Months Ended | |
|---|---|---|
| | September 24, 2017 | September 25, 2016 |
| Cash and cash equivalents at beginning of year | $35,425 | $16,646 |
| Operating activities: | | |
| Net income including non-controlling interest | 8,960 | 9,142 |
| Adjustments to reconcile net income including non-controlling interest to net cash provided by operating activities: | | |
| Equity in earnings of unconsolidated affiliates | (3,087) | (840) |
| Distributions received from unconsolidated affiliates | 7,178 | 750 |
| Depreciation and amortization expense | 5,510 | 4,737 |
| Stock-based compensation expense | 965 | 68 |
| Excess tax benefit on stock-based compensation plans | — | (447) |
| Deferred income taxes | 918 | 2,471 |
| Other, net | 163 | 213 |
| Changes in assets and liabilities: | | |
| Receivables, net | 2,030 | 783 |
| Inventories | (6,021) | (6,720) |
| Other current assets | (285) | (904) |
| Income taxes | (351) | (1,775) |
| Accounts payable and accrued expenses | (366) | 509 |
| Other, net | 146 | 162 |
| Net cash provided by operating activities | 15,760 | 8,149 |
| | | |
| Investing activities: | | |
| Capital expenditures | (5,148) | (10,135) |
| Other, net | 57 | (49) |
| Net cash used in investing activities | (5,091) | (10,184) |
| | | |
| Financing activities: | | |
| Proceeds from ABL Revolver | 22,200 | 40,200 |
| Payments on ABL Revolver | (21,900) | (31,700) |
| Payments on ABL Term Loan | (2,500) | (2,375) |
| Payments on capital lease obligations | (1,785) | (1,073) |
| Proceeds from stock option exercises | 219 | 1,200 |
| Excess tax benefit on stock-based compensation plans | — | 447 |
| Other | (263) | (341) |
| Net cash (used in) provided by financing activities | (4,029) | 6,358 |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | 326 | (48) |
| Net increase in cash and cash equivalents | 6,966 | 4,275 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $42,391 | $ 20,921 |

See accompanying notes to condensed consolidated financial statements.

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Unifi, Inc.

Notes to Condensed Consolidated Financial Statements

1. Background

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

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

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

2. Basis of Presentation; Condensed Notes

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

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

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

The fiscal quarter for Unifi, Inc. and its subsidiary in El Salvador ended on September 24, 2017, the last Sunday in September. The fiscal quarter for Unifi, Inc.'s Brazilian, Chinese, Colombian and Sri Lankan subsidiaries ended on September 30, 2017. There were no significant transactions or events that occurred between Unifi, Inc.'s fiscal quarter end and such wholly owned subsidiaries' subsequent fiscal quarter end. The three-month periods ended September 24, 2017 and September 25, 2016 each consisted of 13 fiscal weeks.

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 new accounting guidance for the recognition of revenue from contracts with customers. Subsequent Accounting Standards Updates ("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) the Company 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

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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 the Company's fiscal 2019.

In February 2016, the FASB issued new accounting guidance for leases. 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 three months ended September 24, 2017. The ASU 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 2014-09 and ASU 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 March 2016, the FASB issued ASU 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 $72 decrease to the provision for income taxes for excess tax benefits and an immaterial increase in potential dilutive weighted average shares for the three months ended September 24, 2017. In connection with 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 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 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:

| | September 24, 2017 | June 25, 2017 |
|---|---|---|
| Customer receivables | $ 82,446 | $ 83,291 |
| Allowance for uncollectible accounts | (2,212 ) | (2,222 ) |
| Reserves for yarn quality claims | (1,254 ) | (1,278 ) |
| Net customer receivables | 78,980 | 79,791 |
| Other receivables | 944 | 1,330 |
| Total receivables, net | $ 79,924 | $ 81,121 |

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

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

5. Inventories

Inventories consists of the following:

| | September 24, 2017 | June 25, 2017 |
|---|---|---|
| Raw materials | $40,366 | $ 36,748 |
| Supplies | 6,482 | 6,104 |
| Work in process | 8,094 | 7,399 |
| Finished goods | 65,726 | 63,121 |
| Gross inventories | 120,668 | 113,372 |
| Inventory reserves | (2,134 ) | (1,967 ) |
| Total inventories | $118,534 | $ 111,405 |

6. Property, Plant and Equipment, Net

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

| | September 24, 2017 | June 25, 2017 |
|---|---|---|
| Land | $2,956 | $ 2,931 |
| Land improvements | 15,079 | 15,066 |
| Buildings and improvements | 158,680 | 157,115 |
| Assets under capital leases | 34,568 | 34,568 |
| Machinery and equipment | 587,011 | 579,211 |
| Computers, software and office equipment | 19,828 | 19,360 |
| Transportation equipment | 4,700 | 4,798 |
| Construction in progress | 4,438 | 7,371 |
| Gross property, plant and equipment | 827,260 | 820,420 |
| Less: accumulated depreciation | (618,324) | (612,355 ) |
| Less: accumulated amortization – capital leases | (5,350 ) | (4,677 ) |
| Total PP&E | $203,586 | $ 203,388 |

Depreciation expense and repair and maintenance expenses were as follows:

| | For the Three Months Ended | |
|---|---|---|
| | September 24, 2017 | September 25, 2016 |
| Depreciation expense | $ 5,123 | $ 4,214 |
| Repair and maintenance expenses | 4,725 | 4,240 |

7. Accrued Expenses

Accrued expenses consists of the following:

| | September 24, 2017 | June 25, 2017 |
|---|---|---|
| Payroll and fringe benefits | $ 9,615 | $ 10,469 |
| Other | 5,726 | 5,675 |
| Total accrued expenses | $ 15,341 | $ 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.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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 September 24, 2017 | Principal Amounts as of September 24, 2017 | June 25, 2017 |
|---|---|---|---|---|
| ABL Revolver | March 2020 | 3.1% | $9,600 | $ 9,300 |
| ABL Term Loan (1) | March 2020 | 3.3% | 92,500 | 95,000 |
| Capital lease obligations | (2) | 3.8% | 23,383 | 25,168 |
| Total debt | | | 125,483 | 129,468 |
| Current portion of capital lease obligations | | | (7,065 ) | (7,060 ) |
| Current portion of other long-term debt | | | (10,000 ) | (10,000 ) |
| Unamortized debt issuance costs | | | (932 ) | (1,026 ) |
| Total long-term debt | | | $107,486 | $ 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 | $— | $— | $9,600 | $— | $— | $ — |
| ABL Term Loan | 7,500 | 10,000 | 75,000 | — | — | — |
| Capital lease obligations | 5,275 | 6,996 | 5,519 | 2,624 | 2,418 | 551 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | $12,775 | $16,996 | $90,119 | $2,624 | $2,418 | $ 551 |

9. Other Long-Term Liabilities

Other long-term liabilities consists of the following:

| | September 24, 2017 | June 25, 2017 |
|---|---|---|
| Uncertain tax positions | $ 5,167 | $ 5,077 |
| Other | 6,086 | 6,727 |
| Total other long-term liabilities | $ 11,253 | $ 11,804 |

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

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

10. Income Taxes

The provision for income taxes was as follows:

| | For the Three Months Ended | |
|---|---|---|
| | September 24, 2017 | September 25, 2016 |
| Provision for income taxes | $3,196 | $ 3,726 |
| Effective tax rate | 26.3 % | 29.0 % |

The effective tax rates for the periods presented above are lower than the U.S. statutory tax rate primarily due to foreign income being taxed at lower rates and the benefit of increased research and development credits. These benefits were 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.

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 net operating losses ("NOLs"), which could potentially be revised upon examination.

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

| | September 24, 2017 | June 25, 2017 |
|---|---|---|
| Investment in a former domestic unconsolidated affiliate | $ (6,262 ) | $ (6,269 ) |
| Equity-method investment in PAL | (1,536 ) | (1,520 ) |
| Certain losses carried forward [1] | (5,924 ) | (5,924 ) |
| State NOLs | (108 ) | (108 ) |
| Other foreign NOLs [2] | (3,149 ) | (3,347 ) |
| Foreign tax credits | (997 ) | (789 ) |
| Total deferred tax valuation allowance | $ (17,976 ) | $ (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 | 31 | 3 | 216 | — | — | 219 |
| Stock-based compensation | — | — | 965 | — | — | 965 |
| Other comprehensive income, net of tax | — | — | — | — | 3,174 | 3,174 |
| Net income | — | — | — | 8,960 | — | 8,960 |
| Balance at September 24, 2017 | 18,261 | $ 1,826 | $ 53,104 | $ 348,900 | $ (29,706) | $ 374,124 |

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

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

12. Stock-Based Compensation

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

| | |
|---|---|
| Authorized under the 2013 Plan | 1,000 |
| Plus: Certain awards expired, forfeited or otherwise terminated unexercised | 343 |
| Less: Awards granted to employees | (666 ) |
| Less: Awards granted to non-employee directors | (105 ) |
| Available for issuance under the 2013 Plan | 572 |

During the three months ended September 24, 2017, UNIFI granted stock options to purchase 45 shares of common stock. No stock options were granted by UNIFI during the three months ended September 25, 2016.

During the three months ended September 24, 2017, UNIFI granted 64 restricted stock units ("RSUs"). No RSUs were granted by UNIFI during the three months ended September 25, 2016.

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.

For the three months ended September 24, 2017 and September 25, 2016, there were no significant changes to UNIFI's assets and liabilities measured at fair value, and there were no transfers into or out of the levels of the fair value hierarchy.

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

14. Accumulated Other Comprehensive Loss

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

| | Foreign Currency Translation Adjustments | Changes in Interest Rate Swaps | Accumulated Other Comprehensive Loss |
|---|---|---|---|
| Balance at June 25, 2017 | $ (32,372 ) | $ (508 ) | $ (32,880 ) |
| Other comprehensive income, net of tax | 2,759 | 415 | 3,174 |
| Balance at September 24, 2017 | $ (29,613 ) | $ (93 ) | $ (29,706 ) |

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

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

15. Earnings Per Share

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

| | For the Three Months Ended September 24, 2017 | September 25, 2016 |
|---|---|---|
| Net income attributable to Unifi, Inc. | $ 8,960 | $ 9,403 |
| Basic weighted average shares | 18,243 | 17,966 |
| Net potential common share equivalents – stock options and RSUs | 328 | 387 |
| Diluted weighted average shares | 18,571 | 18,353 |
| Excluded from diluted weighted average shares: | | |
| Anti-dilutive common share equivalents | 264 | 155 |

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 September 24, 2017, UNIFI's investment in PAL was $111,184 and UNIFI's combined investments in UNF and UNFA were $4,243, 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 September 2017, PAL had no futures contracts designated as cash flow hedges.

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

| | |
|---|---|
| Underlying equity as of September 24, 2017 | $129,373 |
| 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 |
| Cotton rebate adjustments to PAL's depreciation expense | (98 ) |
| Investment as of September 24, 2017 | $111,184 |

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

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

agreement has no stated minimum purchase quantities and pricing is negotiated every six months, based on market rates. As of September 24, 2017, UNIFI's open purchase orders related to this agreement were $3,643.

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

| | For the Three Months Ended | |
|---|---|---|
| | September 24, 2017 | September 25, 2016 |
| UNF | $608 | $ 778 |
| UNFA | 5,280 | 5,388 |
| Total | $5,888 | $ 6,166 |

As of September 24, 2017 and June 25, 2017, UNIFI had combined accounts payable due to UNF and UNFA of $2,621 and $2,301, respectively.

UNIFI has determined that UNF and UNFA are variable interest entities ("VIEs") and has also determined that UNIFI is the primary beneficiary of these entities, based on the terms of the supply agreement discussed above. As a result, these entities should be consolidated with UNIFI's financial results. As UNIFI purchases substantially all of the output from the two entities, the two entities' balance sheets constitute 3% or less of UNIFI's 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 following tables. PAL is defined as significant and its information is separately disclosed. PAL does not meet the criteria for segment reporting.

| | As of September 24, 2017 | | |
|---|---|---|---|
| | PAL | Other | Total |
| Current assets | $262,830 | $10,869 | $273,699 |
| Noncurrent assets | 180,849 | 1,019 | 181,868 |
| Current liabilities | 59,959 | 3,579 | 63,538 |
| Noncurrent liabilities | 3,211 | — | 3,211 |
| Shareholders' equity and capital accounts | 380,509 | 8,309 | 388,818 |

| | | | |
|---|---|---|---|
| UNIFI's portion of undistributed earnings | 41,908 | 2,264 | 44,172 |

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

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

| | For the Three Months Ended September 24, 2017 | | |
|---|---|---|---|
| | PAL | Other | Total |
| Net sales | $202,791 | $5,693 | $208,484 |
| Gross profit | 13,710 | 954 | 14,664 |
| Income from operations | 9,956 | 509 | 10,465 |
| Net income | 8,346 | 518 | 8,864 |
| Depreciation and amortization | 9,600 | 47 | 9,647 |
| | | | |
| Cash received by PAL under cotton rebate program | 2,241 | — | 2,241 |
| Earnings recognized by PAL for cotton rebate program | 3,255 | — | 3,255 |
| | | | |
| Distributions received | 7,178 | — | — |

| | For the Three Months Ended September 25, 2016 | | |
|---|---|---|---|
| | PAL | Other | Total |
| Net sales | $205,900 | $6,002 | $211,902 |
| Gross profit | 5,496 | 1,545 | 7,041 |
| Income from operations | 861 | 1,085 | 1,946 |
| Net income | 874 | 1,097 | 1,971 |
| Depreciation and amortization | 11,476 | 39 | 11,515 |
| | | | |
| Cash received by PAL under cotton rebate program | 4,127 | — | 4,127 |
| Earnings recognized by PAL for cotton rebate program | 3,889 | — | 3,889 |
| | | | |
| Distributions received | — | 750 | 750 |

17. Commitments and Contingencies

Collective Bargaining Agreements

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

Environmental

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

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

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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:

| | September 24, 2017 | June 25, 2017 |
|---|---|---|
| Salem Global Logistics, Inc. | $ 7 | $ 6 |
| Total related party receivables (included within receivables, net) | $ 7 | $ 6 |

Related party payables consists of the following:

| | September 24, 2017 | June 25, 2017 |
|---|---|---|
| Salem Leasing Corporation (included within accounts payable) | $ 286 | $ 298 |
| Salem Leasing Corporation (capital lease obligation) | 929 | 947 |
| Total related party payables | $ | |