UNIFI INC
Form 10-Q
November 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 27, 2015

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, NC	**27419-9109**
(Address of principal executive offices)	*(Zip Code)*

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

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 [X] 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 [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

The number of shares outstanding of the issuer's common stock, par value $.10 per share, as of November 4, 2015 was 17,806,722.

UNIFI, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 27, 2015

TABLE OF CONTENTS

Part I. FINANCIAL INFORMATION

Part II. OTHER INFORMATION

Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(amounts in thousands, except share and per share amounts)

	September 27, 2015	**June 28, 2015**
ASSETS		
Cash and cash equivalents	$ 9,954	$ 10,013
Receivables, net	84,960	83,863
Inventories	112,778	111,615
Income taxes receivable	201	1,451
Deferred income taxes	2,153	2,383
Other current assets	3,597	6,022
Total current assets	213,643	215,347
Property, plant and equipment, net	149,275	136,222
Deferred income taxes	914	1,539
Intangible assets, net	4,963	5,388
Investments in unconsolidated affiliates	114,448	113,901
Other non-current assets	4,054	3,975
Total assets	$ 487,297	$ 476,372
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$ 42,398	$ 45,023
Accrued expenses	13,648	16,640
Income taxes payable	1,437	676
Current portion of long-term debt	14,515	12,385
Total current liabilities	71,998	74,724
Long-term debt	113,710	91,725
Other long-term liabilities	10,443	10,740
Deferred income taxes	89	90
Total liabilities	196,240	177,279
Commitments and contingencies		
Common stock, $0.10 par value (500,000,000 shares authorized, 17,833,722 and 18,007,749 shares outstanding)	1,783	1,801

Capital in excess of par value	44,373	44,261
Retained earnings	281,378	278,331
Accumulated other comprehensive loss	(38,317)	(26,899)
Total Unifi, Inc. shareholders' equity	289,217	297,494
Non-controlling interest	1,840	1,599
Total shareholders' equity	291,057	299,093
Total liabilities and shareholders' equity	$ 487,297	$ 476,372

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(amounts in thousands, except per share amounts)

	For The Three Months Ended	
	September 27, 2015	September 28, 2014
Net sales	$162,165	$175,561
Cost of sales	141,181	155,111
Gross profit	20,984	20,450
Selling, general and administrative expenses	10,830	11,649
Provision for bad debts	613	584
Other operating (income) expense, net	(146)	600
Operating income	9,687	7,617
Interest income	(163)	(317)
Interest expense	984	819
Equity in earnings of unconsolidated affiliates	(2,860)	(3,721)
Income before income taxes	11,726	10,836
Provision for income taxes	3,940	4,161
Net income including non-controlling interest	7,786	6,675
Less: net (loss) attributable to non-controlling interest	(239)	(402)
Net income attributable to Unifi, Inc.	$8,025	$7,077
Net income attributable to Unifi, Inc. per common share:		
Basic	$0.45	$0.39
Diluted	$0.43	$0.37

See accompanying Notes to Condensed Consolidated Financial Statements.

4

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)

(amounts in thousands)

	For The Three Months Ended	
	September 27, 2015	**September 28, 2014**
Net income including non-controlling interest	$ 7,786	$ 6,675
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(11,038)	(7,041)
Foreign currency translation adjustments for an unconsolidated affiliate	(399)	—
Reclassification adjustments on interest rate swap	19	104
Other comprehensive loss, net	(11,418)	(6,937)
Comprehensive loss including non-controlling interest	(3,632)	(262)
Less: comprehensive (loss) attributable to non-controlling interest	(239)	(402)
Comprehensive (loss) income attributable to Unifi, Inc.	$ (3,393)	$ 140

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS’ EQUITY (Unaudited)

For the Three Months Ended September 27, 2015

(amounts in thousands)

	Shares	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total Unifi, Inc. Shareholders’ Equity	Non-controlling Interest	Total Shareholders’ Equity
Balance at June 28, 2015	18,007	$ 1,801	$ 44,261	$ 278,331	$ (26,899)	$ 297,494	$ 1,599	$ 299,093
Options exercised	5	—	60	—	—	60	—	60
Stock-based compensation	—	—	495	—	—	495	—	495
Common stock repurchased and retired under publicly announced programs	(179)	(18)	(443)	(4,978)	—	(5,439)	—	(5,439)
Other comprehensive loss, net	—	—	—	—	(11,418)	(11,418)	—	(11,418)
Contributions from non-controlling interest	—	—	—	—	—	—	480	480
Net income (loss)	—	—	—	8,025	—	8,025	(239)	7,786
Balance at September 27, 2015	17,833	$ 1,783	$ 44,373	$ 281,378	$ (38,317)	$ 289,217	$ 1,840	$ 291,057

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(amounts in thousands)

	For The Three Months Ended	
	September 27, 2015	**September 28, 2014**
Cash and cash equivalents at beginning of year	$ 10,013	$ 15,907
Operating activities:		
Net income including non-controlling interest	7,786	6,675
Adjustments to reconcile net income including non-controlling interest to net cash provided by operating activities:		
Equity in earnings of unconsolidated affiliates	(2,860)	(3,721)
Distributions received from unconsolidated affiliates	1,947	—
Depreciation and amortization expense	4,383	4,492
Non-cash compensation expense	284	625
Deferred income taxes	498	(912)
Other, net	170	134
Changes in assets and liabilities:		
Receivables, net	(4,276)	(667)
Inventories	(6,298)	(3,209)
Other current assets and income taxes receivable	1,788	508
Accounts payable and accrued expenses	(3,474)	(5,346)
Income taxes payable	839	1,523
Net cash provided by operating activities	787	102
Investing activities:		
Capital expenditures	(15,875)	(7,383)
Proceeds from sale of assets	2,088	22
Other, net	(347)	(16)
Net cash used in investing activities	(14,134)	(7,377)
Financing activities:		
Proceeds from revolving credit facilities	53,200	45,600
Payments on revolving credit facilities	(30,200)	(55,300)
Proceeds from term loan	—	22,000
Payment on term loan	(2,250)	—
Payments on capital lease obligations	(924)	(208)
Common stock repurchased and retired under publicly announced programs	(5,439)	(4,160)
Proceeds from stock option exercises	60	—
Contributions from non-controlling interest	480	720
Other	(471)	(461)
Net cash provided by financing activities	14,456	8,191
Effect of exchange rate changes on cash and cash equivalents	(1,168)	(1,031)

Net decrease in cash and cash equivalents	(59)	(115)
Cash and cash equivalents at end of period	$9,954	$ 15,792

See accompanying Notes to Condensed Consolidated Financial Statements.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements

1. Background

Unifi, Inc., a New York corporation formed in 1969 (together with its subsidiaries, “we”, the “Company” or “Unifi”), is a multi-national manufacturing company that processes and sells high-volume commodity yarns, specialized yarns designed to meet certain customer specifications, and premier value-added (“PVA”) yarns with enhanced performance characteristics. The Company sells yarns made from polyester and nylon to other yarn manufacturers and knitters and weavers that produce fabric for the apparel, hosiery, home furnishings, automotive upholstery, industrial and other end-use markets. The Company’s polyester products include polyester polymer beads (“Chip”), partially oriented yarn (“POY”), textured, solution and package dyed, twisted, beamed and draw wound yarns; each is available in virgin or recycled varieties (the latter made from both pre-consumer yarn waste and post-consumer waste, including plastic bottles). The Company’s nylon products include textured, solution dyed and spandex covered products.

The Company maintains one of the textile industry’s most comprehensive yarn product offerings, and has ten manufacturing operations in four countries and participates in joint ventures in Israel and the United States (“U.S.”). The Company’s principal geographic markets for its products are located in the U.S., Canada, Mexico, Central America and South America. In addition, the Company has a wholly-owned subsidiary in the People’s Republic of China (“China”) focused on the sale and promotion of the Company’s PVA and other specialty products in the Asian textile market, primarily in China, as well as in the European market.

2. Basis of Presentation; Condensed Notes

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information. As contemplated by the instructions of the Securities and Exchange Commission 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 the Company’s year-end audited consolidated financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended June 28, 2015 (the “2015 Form 10-K”).

The financial information included in this report has been prepared by the Company, without audit. In the opinion of management, all 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.

Fiscal Year

The Company's current fiscal quarter ended on September 27, 2015, the last Sunday in September. The Company's Brazilian and Colombian subsidiaries' fiscal quarter ended on September 30, 2015. There were no significant transactions or events that occurred between the Company's fiscal quarter end and its subsidiaries' fiscal quarter end. The three months ended September 27, 2015 and September 28, 2014 each consisted of thirteen fiscal weeks.

Reclassifications

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

Net sales, cost of sales and other operating (income) expense, net for the three months ended September 28, 2014 have been revised herein, where applicable, to correspond to the presentation for the three months ended September 27, 2015, consistent with note 27 in the 2015 Form 10-K.

3. Recent Accounting Pronouncements

There have been no newly issued or newly applicable accounting pronouncements that have, or are expected to have, a significant impact on the Company's financial statements.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

4. Receivables, Net

Receivables, net consists of the following:

	September 27, 2015	June 28, 2015
Customer receivables	$ 87,285	$ 85,731
Allowance for uncollectible accounts	(1,932)	(1,596)
Reserves for yarn quality claims	(732)	(581)
Net customer receivables	84,621	83,554
Related party receivables	41	75
Other receivables	298	234
Total receivables, net	$ 84,960	$ 83,863

Other receivables consist primarily of receivables for duty drawback and refunds from vendors.

The changes in the Company's allowance for uncollectible accounts and reserves for yarn quality claims were as follows:

	Allowance for Uncollectible Accounts	Reserves for Yarn Quality Claims
Balance at June 28, 2015	$ (1,596)	$ (581)
Charged to costs and expenses	(613)	(503)
Charged to other accounts	175	30
Deductions	102	322
Balance at September 27, 2015	$ (1,932)	$ (732)

Amounts charged to costs and expenses for the allowance for uncollectible accounts are reflected in provision for bad debts and deductions represent amounts written off which were deemed to not be collectible, net of any recoveries. Amounts charged to costs and expenses for the reserves for yarn quality claims are primarily reflected as a reduction of net sales and deductions represent adjustments to either increase or decrease claims based on negotiated amounts or actual versus estimated claim differences. Amounts charged to other accounts primarily include the impact of translating the activity of the Company's foreign affiliates from their respective local currencies to the U.S. Dollar.

5. Inventories

Inventories consists of the following:

	September 27, 2015	June 28, 2015
Raw materials	$ 42,345	$ 42,526
Supplies	4,850	5,404
Work in process	8,118	7,546
Finished goods	58,126	56,844
Gross inventories	113,439	112,320
Inventory reserves	(661)	(705)
Total inventories	$ 112,778	$ 111,615

The cost for the majority of the Company's inventories is determined using the first-in, first-out method. Certain foreign inventories and limited categories of supplies of $24,037 and $28,548 as of September 27, 2015 and June 28, 2015, respectively, were valued under the average cost method.

6. Other Current Assets

Other current assets consists of the following:

	September 27, 2015	June 28, 2015
Prepaid expenses	$ 1,931	$ 1,647
Vendor deposits	1,040	1,743
Funds held by qualified intermediary	—	1,390
Value added taxes receivable	613	1,220
Other	13	22
Total other current assets	$ 3,597	$ 6,022

9

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

Vendor deposits primarily relate to down payments made toward the purchase of raw materials by the Company's U.S., Brazilian and Chinese operations. Value added taxes receivable are recoverable taxes associated with sales and purchase activities of the Company's foreign operations. Prepaid expenses consist of advance payments for insurance, professional fees, membership dues, subscriptions, non-income related tax payments, marketing and information technology services.

During June 2015, the Company sold certain land and building assets historically utilized for warehousing in the Polyester Segment to an unrelated third party. Net proceeds from the sale of $1,390 were remitted directly to a qualified intermediary in anticipation of an exchange under section 1031 of the Internal Revenue Code of 1986, as amended ("Internal Revenue Code"). Such funds were utilized during August 2015 to complete an exchange and purchase certain land and building assets for use in the Polyester Segment from an unrelated third party.

7. Property, Plant and Equipment, Net

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

	September 27, 2015	**June 28, 2015**
Land	$3,048	$2,413
Land improvements	11,687	11,709
Buildings and improvements	141,680	141,259
Assets under capital leases	21,525	17,371
Machinery and equipment	525,280	531,225
Computers, software and office equipment	16,578	16,782
Transportation equipment	4,558	4,736
Construction in progress	14,947	6,710
Gross property, plant and equipment	739,303	732,205
Less: accumulated depreciation	(588,700)	(595,094)
Less: accumulated amortization – capital leases	(1,328)	(889)
Total property, plant and equipment, net	$149,275	$136,222

Assets under capital leases consists of the following:

	September 27, 2015	June 28, 2015
Machinery and equipment	$ 14,745	$ 12,804
Transportation equipment	5,927	3,714
Building improvements	853	853
Gross assets under capital leases	$ 21,525	$ 17,371

During the first quarter of fiscal year 2016, the Company entered into three capital leases for machinery and transportation equipment with an aggregate present value of $4,154.

Internal software development costs within PP&E consist of the following:

	September 27, 2015	June 28, 2015
Internal software development costs	$ 2,499	$ 2,473
Accumulated amortization	(2,259)	(2,221)
Net internal software development costs	$ 240	$ 252

Depreciation expense, including the amortization of assets under capital leases, internal software development costs amortization, repairs and maintenance expenses, and capitalized interest were as follows:

	For the Three Months Ended	
	September 27, 2015	September 28, 2014
Depreciation expense	$ 3,804	$ 3,828
Internal software development costs amortization	38	34
Repair and maintenance expenses	4,496	4,658
Capitalized interest	76	47

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

8. Intangible Assets, Net

Intangible assets, net consists of the following:

	September 27, 2015	June 28, 2015
Customer lists	$ 23,615	$ 23,615
Non-compete agreements	4,293	4,293
Licenses, trademarks and other	844	837
Total intangible assets, gross	28,752	28,745
Accumulated amortization - customer lists	(19,740)	(19,432)
Accumulated amortization - non-compete agreements	(3,618)	(3,537)
Accumulated amortization – licenses, trademarks and other	(431)	(388)
Total accumulated amortization	(23,789)	(23,357)
Total intangible assets, net	$ 4,963	$ 5,388

In fiscal year 2007, the Company purchased the texturing operations of Dillon Yarn Corporation (“Dillon”), included in the Company’s Polyester Segment. The valuation of the customer list acquired ($22,000) was determined by estimating the discounted net earnings attributable to the customer relationships that were purchased after considering items such as possible customer attrition. Based on the length and trend of the projected cash flows, an estimated useful life of thirteen years was determined. The customer list is amortized through December 2019, in a manner which reflects the expected economic benefit that will be received over its thirteen-year life. The non-compete agreement (with a gross basis of $4,000) is amortized through December 2017, using the straight-line method over the period currently covered by the agreement.

On December 2, 2013, the Company acquired certain draw winding assets and the associated business from Dillon, included in the Company’s Polyester Segment. A customer list (with a gross basis of $1,615) and a non-compete agreement (with a gross basis of $50) were recorded in connection with the business combination, utilizing similar valuation methods as described above for the fiscal year 2007 transaction. The customer list is amortized over a nine-year estimated useful life based on the expected economic benefit. The non-compete agreement is amortized using the straight line method over the five-year term of the agreement.

In fiscal year 2012, the Company acquired a controlling interest (and continues to hold such 60% membership interest) in Repreve Renewables, LLC (“Renewables”), an agricultural company focused on the development, production and commercialization of dedicated biomass feedstock for use in the animal bedding, bio energy and bio-based products markets. A non-compete agreement (with a gross basis of $243) for Renewables is amortized using the straight-line method over the five-year term of the agreement. The FREEDOM® Giant Miscanthus (“FGM”) license held by Renewables is amortized using the straight-line method over its estimated useful life of eight years. The FGM license is exclusive through April 26, 2020 and non-exclusive thereafter. The term of the license agreement is through March 5, 2030, which is the term of the related patent. Renewables may elect to extend the exclusive license rights through the term of the agreement by making a one-time payment to Mississippi State University (“MSU”) equal to 25% of the royalties paid to MSU attributable to the ninth year of the agreement.

The Company capitalizes costs incurred to register trademarks for REPREVE® and other PVA products in various countries. The Company has determined that these trademarks have varying useful lives of up to three years and are being amortized using the straight-line method.

Amortization expense for intangible assets consists of the following:

	For the Three Months Ended	
	September 27, 2015	**September 28, 2014**
Customer lists	$308	$ 399
Non-compete agreements	81	80
Licenses, trademarks and other	43	39
Total amortization expense	$432	$ 518

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

9. Other Non-Current Assets

Other non-current assets consists of the following:

	September 27, 2015	June 28, 2015
Biomass foundation and feedstock, net	$ 2,318	$ 2,151
Debt financing fees	1,525	1,611
Other	211	213
Total other non-current assets	$ 4,054	$ 3,975

Biomass foundation and feedstock are currently being developed and propagated by Renewables for potential markets in the animal bedding and bioenergy industries and are reflected net of accumulated depreciation of $75 and $55 at September 27, 2015 and June 28, 2015, respectively. Other consists primarily of vendor deposits.

10. Accrued Expenses

Accrued expenses consists of the following:

	September 27, 2015	June 28, 2015
Payroll and fringe benefits	$ 8,090	$ 11,258
Utilities	2,906	2,823
Property taxes	1,170	790
Contingent consideration	563	634
Other	919	1,135
Total accrued expenses	$ 13,648	$ 16,640

Other consists primarily of employee-related claims and payments, interest, marketing expenses, freight expenses, rent, deferred incentives and other non-income related taxes.

11. Long-Term Debt

Debt Obligations

The following table presents the total balances outstanding for the Company'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 27, 2015 (1)	Principal Amounts as of September 27, 2015	Principal Amounts as of June 28, 2015
ABL Revolver	March 2020	1.7%	$ 28,000	$ 5,000
ABL Term Loan	March 2020	2.2%	79,875	82,125
Renewables' promissory note	September 2020	3.0%	135	—
Term loan from unconsolidated affiliate	August 2016	3.0%	1,250	1,250
Capital lease obligations	(2)	(3)	18,965	15,735
Total debt			128,225	104,110
Current portion of capital lease obligations			(4,240)	(3,385)
Current portion of long-term debt			(10,275)	(9,000)
Total long-term debt			$ 113,710	$ 91,725

(1) The weighted average interest rate as of September 27, 2015 for the ABL Term Loan includes the effects of the interest rate swap with a notional balance of $50,000.
(2) Scheduled maturity dates for capital lease obligations range from January 2017 to November 2027.
(3) Interest rates for capital lease obligations range from 2.3% to 4.6%.

On March 26, 2015, the Company and its subsidiary, Unifi Manufacturing, Inc., entered into an Amended and Restated Credit Agreement (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 if certain future conditions are met (the "ABL Term Loan"). The ABL Facility has a maturity date of March 26, 2020. The Company paid $750 to the lenders in connection with the Amended Credit Agreement.

The Amended Credit Agreement replaced a previous senior secured credit facility dated May 24, 2012 with a similar syndicate of lenders, which, after multiple amendments, would have matured on March 28, 2019 and consisted of a $100,000 revolving credit facility and a $90,000 term loan. As used herein, the terms “ABL Facility,” “ABL Revolver” and “ABL Term Loan” shall mean the senior secured credit facility, the revolving credit facility or the term loan, respectively, under the Amended Credit Agreement or the previous senior secured credit facility, as applicable.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

ABL Facility

The ABL Facility is secured by a first-priority perfected security interest in substantially all owned property and assets (together with 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 the Company) 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 1.0 becomes effective. The Trigger Level as of September 27, 2015 was $22,484. In addition, the ABL Facility contains restrictions on certain payments and investments, including restrictions on the payment of dividends and share repurchases. Subject to certain provisions, the ABL Term Loan may be prepaid at par, in whole or in part, at any time before the maturity date, at the Company'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 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 (a) the excess availability under the ABL Revolver and (b) the consolidated leverage ratio, calculated by fiscal quarter. The Base Rate means the greater of (i) the prime lending rate as publicly announced from time to time by Wells Fargo, (ii) the Federal Funds Rate plus 0.5%, and (iii) LIBOR plus 1.0%. The Company'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%.

The ABL Term Loan is currently subject to quarterly amortizing payments of $2,250. Additionally, principal increases are available at the Company's discretion, resetting the loan balance up to a maximum amount of $100,000, once per fiscal year upon satisfaction of certain conditions, beginning October 1, 2015.

As of September 27, 2015, the Company was in compliance with all financial covenants; the excess availability under the ABL Revolver was $57,089; the consolidated leverage ratio was 1.9 to 1.0; the fixed charge coverage ratio was 2.7 to 1.0; and the Company had $235 of standby letters of credit, none of which have been drawn upon.

First Amendment

On June 26, 2015, the Company entered into the First Amendment to Amended and Restated Credit Agreement dated March 26, 2015 ("First Amendment"). The First Amendment modified the composition of subsidiary guarantors in connection with an internal reorganization completed during the fourth quarter of fiscal year 2015. There was no impact to the consolidated financial statements as a result of the First Amendment.

Renewables' Promissory Note

In September 2015, Renewables delivered a promissory note in the amount of $135, and cash, to an unrelated third party for the purchase of certain land, consisting of thirty-seven acres located in Seven Springs, North Carolina, valued at $191. Such promissory note bears fixed interest at 3.0%, with principal and interest payable annually over a five-year period.

Renewables' Term Loan

In September 2015, Renewables entered into a secured debt financing arrangement consisting of a master loan agreement and corresponding term loan supplement, with unrelated parties, with a borrowing capacity of up to $4,000. In October 2015, Renewables borrowed $4,000. The agreements include representations and warranties made by Renewables, financial covenants, affirmative and negative covenants and events of default that are usual and customary for financings of this type. Lender recourse does not extend beyond the assets of Renewables. Borrowings will bear interest at LIBOR plus an applicable margin of 3.25%, payable monthly in arrears.

Term Loan from Unconsolidated Affiliate

On August 30, 2012, a foreign subsidiary of the Company entered into an unsecured loan agreement under which it borrowed $1,250 from the Company's unconsolidated affiliate, U.N.F. Industries Ltd. The loan does not amortize and bears interest at 3%, payable semi-annually. The entire principal balance is due August 30, 2016, the revised maturity date.

Capital Lease Obligations

During the three months ended September 27, 2015, the Company entered into capital leases with an aggregate present value of $4,154. Fixed interest rates for these capital leases range from 3.4% to 3.8%, with maturity dates in August 2020.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

Scheduled Debt Maturities

The following table presents the scheduled maturities of the Company's outstanding debt obligations for the remainder of fiscal year 2016 and the fiscal years thereafter:

	Scheduled Maturities on a Fiscal Year Basis					
	2016	**2017**	**2018**	**2019**	**2020**	**Thereafter**
ABL Revolver	$—	$—	$—	$—	$28,000	$ —
ABL Term Loan	6,750	9,000	9,000	9,000	46,125	—
Renewables' promissory note	—	25	26	27	28	29
Capital lease obligations	3,167	4,261	4,128	4,058	2,542	809
Term loan from unconsolidated affiliate	—	1,250	—	—	—	—
Total	$9,917	$14,536	$13,154	$13,085	$76,695	$ 838

Debt Financing Fees

Debt financing fees are classified within other non-current assets and consist of the following:

Balance at June 28, 2015	$1,611
Additions	14
Amortization charged to interest expense	(100)
Balance at September 27, 2015	$1,525

Interest Expense

Interest expense consists of the following:

	For the Three Months Ended	
	September 27, 2015	**September 28, 2014**
Interest on ABL Facility	$613	$ 860
Other	212	48

Subtotal of interest on debt obligations	825	908
Reclassification adjustment for interest rate swap	19	104
Amortization of debt financing fees	100	112
Mark-to-market adjustment for interest rate swap	116	(258)
Interest capitalized to property, plant and equipment, net	(76)	(47)
Subtotal of other components of interest expense	159	(89)
Total interest expense	$984	$ 819

12. Other Long-Term Liabilities

Other long-term liabilities consists of the following:

	September 27, 2015	June 28, 2015
Uncertain tax positions	$ 4,052	$3,980
Supplemental post-employment plan	3,479	3,690
Contingent consideration	1,219	1,573
Interest rate swap	396	280
Other	1,297	1,217
Total other long-term liabilities	$ 10,443	$10,740

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

The Company maintains an unfunded supplemental post-employment plan for certain management employees. Each employee's account is credited annually based upon a percentage of the participant's base salary, with each participant's balance adjusted quarterly to reflect returns based upon a stock market index. Amounts are paid to participants only after termination of employment. (Income) expenses recorded for this plan for the quarters ended September 27, 2015 and September 28, 2014 were $(211) and $99, respectively.

Contingent consideration represents the present value of the long-term portion of contingent payments associated with the Company's December 2013 acquisition of Dillon's draw winding business. See "Note 16. Fair Value of Financial Instruments and Non-Financial Assets and Liabilities" for further discussion.

Other primarily includes certain retiree and post-employment medical and disability liabilities and deferred energy incentive credits.

13. Income Taxes

The effective income tax rates for the three months ended September 27, 2015 and September 28, 2014 were based upon the estimated effective income tax rate applicable for the full year after giving effect to any significant items related specifically to interim periods. The effective income tax rate can be impacted over the course of the fiscal year by the mix and timing of actual earnings from our U.S. and foreign sources versus annual projections and changes in foreign currency exchange rates in relation to the U.S. Dollar. As a result, the Company's effective tax rate may fluctuate significantly on a quarterly basis.

The Company's income tax provision for the three months ended September 27, 2015 and September 28, 2014 resulted in tax expense of $3,940 and $4,161 with an effective tax rate of 33.6% and 38.4%, respectively.

The effective income tax rate for the current quarter is lower than the U.S. statutory rate due to (i) a decrease in the valuation allowance reflecting the recognition of lower taxable income versus book income for the Company's investment in Parkdale America, LLC (for which the Company maintains a full valuation allowance), which was partially offset by an increase in the valuation allowance for net operating losses, including Renewables (for which no tax benefit could be recognized); (ii) a lower overall effective tax rate for the Company's foreign earnings (reflecting free-trade zone sales in El Salvador and lower statutory tax rates in both Brazil and China) and (iii) the domestic production activities deduction. These items were partially offset by (i) state and local taxes net of the assumed federal benefit and (ii) losses in tax jurisdictions for which no tax benefit could be recognized.

The effective income tax rate for the prior year quarter is higher than the U.S. statutory rate due to the impact of state and local taxes, the timing of the Company's recognition of higher taxable versus book income for Parkdale America, LLC and losses in tax jurisdictions for which no tax benefit could be recognized, partially offset by the domestic production activities deduction.

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

	September 27, 2015	**June 28, 2015**
Investment in a former domestic unconsolidated affiliate	$ (6,400)	$ (6,503)
Equity-method investment in Parkdale America, LLC	(3,009)	(3,261)
Foreign tax credits	(1,680)	(1,680)
Book versus tax basis difference in Renewables	(1,300)	(1,359)
NOLs related to Renewables	(2,963)	(2,803)
Total deferred tax valuation allowance	$ (15,352)	$ (15,606)

There have been no significant changes in the Company's liability for uncertain tax positions since June 28, 2015. The Company's estimate for the potential outcome for any uncertain tax issue is highly judgmental. Management believes that any reasonably foreseeable outcomes related to these matters have been adequately provided for. However, future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire.

The Company and its domestic subsidiaries file a consolidated federal income tax return, as well as income tax returns in numerous state and foreign jurisdictions. The tax years subject to examination vary by jurisdiction. The Company regularly assesses the outcomes of both completed and ongoing examinations to ensure that the Company's provision for income taxes is sufficient. Currently, the Company is subject to income tax examinations for U.S. federal income taxes for tax years 2011 through 2015, for foreign income taxes for tax years 2008 through 2015, and for state and local income taxes for tax years 2009 through 2015. The U.S. federal tax returns and state tax returns filed or to-be-filed for the 2011 through 2015 tax years have utilized carryforward tax attributes generated in prior tax years, including net operating losses, which could potentially be revised upon examination.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

14. Shareholders’ Equity

During fiscal year 2014, the Company completed its repurchase of shares under its $50,000 stock repurchase program that had been approved by the Board on January 22, 2013 (the “2013 SRP”). On April 23, 2014, the Board approved a new stock repurchase program (“2014 SRP”) to acquire up to an additional $50,000 of the Company’s common stock. Under the 2014 SRP (as was the case under the 2013 SRP), the Company has been 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 Company’s 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. The Company may discontinue repurchases at any time that management determines additional purchases are not beneficial or advisable.

The following table summarizes the Company’s repurchases and retirements of its common stock under the 2013 SRP and the 2014 SRP.

	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	**Average Price Paid per Share**	**Maximum Approximate Dollar Value that May Yet Be Repurchased Under the 2014 SRP**
Fiscal year 2013	1,068	$ 18.08	
Fiscal year 2014	1,524	$ 23.96	
Fiscal year 2015	349	$ 29.72	
Fiscal year 2016 (through September 27, 2015)	179	$ 30.36	
Total	3,120	$ 22.96	$ 28,376

All repurchased shares have been retired and have the status of authorized and unissued shares. The cost of the repurchased shares is recorded as a reduction to common stock to the extent of the par value of the shares acquired and the remainder is allocated between capital in excess of par value and retained earnings. The portion of the remainder that is allocated to capital in excess of par value is limited to a pro rata portion of capital in excess of par value.

No dividends were paid during the three months ended September 27, 2015 or in the two most recent fiscal years.

15. Stock-based Compensation

On October 23, 2013, the Company's shareholders approved the Unifi, Inc. 2013 Incentive Compensation Plan (the "2013 Plan"). The 2013 Plan replaced the 2008 Unifi, Inc. Long-Term Incentive Plan ("2008 LTIP"). No additional awards will be granted under the 2008 LTIP; however, prior awards outstanding under the 2008 LTIP remain subject to that plan's provisions. The 2013 Plan authorized the issuance of 1,000 shares of common stock, subject to certain increases in the event outstanding awards under the 2008 LTIP expire, are forfeited or otherwise terminate unexercised.

Stock options

During the quarters ended September 27, 2015 and September 28, 2014, the Company granted stock options to purchase 82 and 150 shares of common stock, respectively, to certain key employees. The stock options vest ratably over the required three-year service period and have ten-year contractual terms. For the quarters ended September 27, 2015 and September 28, 2014, the weighted average exercise price of the options was $32.36 and $27.38 per share, respectively. The Company used the Black-Scholes model to estimate the weighted average grant date fair value of $20.27 and $17.31 per share, respectively.

For options granted, the valuation models used the following assumptions:

	For the Three Months Ended	
	September 27, 2015	September 28, 2014
Expected term (years)	7.6	7.3
Risk-free interest rate	2.1 %	2.2 %
Volatility	60.5 %	62.6 %
Dividend yield	—	—

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

The Company uses historical data to estimate the expected term and volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant for periods corresponding with the expected term of the options.

A summary of stock option activity for the quarter ended September 27, 2015 is as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at June 28, 2015	934	$ 12.63		
Granted	82	$ 32.36		
Exercised	(5)	$ 12.02		
Forfeited	—	$ —		
Expired	—	$ —		
Outstanding at September 27, 2015	1,011	$ 14.24	5.7	$ 15,547
Vested and expected to vest as of September 27, 2015	1,003	$ 14.13	5.7	$ 15,534
Exercisable at September 27, 2015	796	$ 10.38	4.8	$ 15,124

As of September 27, 2015, all options subject to a market condition were vested. During fiscal year 2015, 10 options subject to a market condition vested when the closing price of the Company's common stock on the New York Stock Exchange was at least $30 per share for thirty consecutive trading days.

At September 27, 2015, the remaining unrecognized compensation cost related to unvested stock options was $2,397, which is expected to be recognized over a weighted average period of 2.4 years.

For the quarter ended September 27, 2015, the total intrinsic value of options exercised was $107. The amount of cash received from the exercise of options was $60 and the tax benefit realized from stock options exercised was $15 for the quarter ended September 27, 2015.

Restricted stock units

The Company may issue, from time to time, restricted stock units (“RSUs”) to the Company’s non-employee directors or certain key employees. See “Note 16. Stock-Based Compensation” included in the 2015 Form 10-K for further information regarding the Company’s RSUs. No RSUs were granted during the three months ended September 27, 2015 and September 28, 2014.

The Company estimates the fair value of RSUs based on the market price of the Company’s common stock at the award grant date.

A summary of the RSU activity for the quarter ended September 27, 2015 is as follows:

	Non-vested	Weighted Average Grant Date Fair Value	Vested	Total	Weighted Average Grant Date Fair Value
Outstanding at June 28, 2015	20	$ 18.35	167	187	$ 15.35
Granted	—	$ —	—	—	$ —
Vested	(14)	$ 16.52	14	—	$ 16.52
Converted	—	$ —	—	—	$ —
Forfeited	—	$ —	—	—	$ —
Outstanding at September 27, 2015	6	$ 22.08	181	187	$ 15.35

At September 27, 2015, the number of RSUs vested and expected to vest was 187 with an aggregate intrinsic value of $5,513. The aggregate intrinsic value of the 181 vested RSUs at September 27, 2015 was $5,312.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

Summary

The total cost charged against income related to all stock-based compensation arrangements is as follows:

	For the Three Months Ended	
	September 27, 2015	September 28, 2014
Stock options	$475	$ 464
RSUs	20	62
Total compensation cost	$495	$ 526

The total income tax benefit recognized for stock-based compensation was $93 and $101 for the quarters ended September 27, 2015 and September 28, 2014, respectively.

As of September 27, 2015, total unrecognized compensation costs related to all unvested stock-based compensation arrangements was $2,438. The weighted average period over which these costs are expected to be recognized is 2.4 years.

As of September 27, 2015, a summary of the number of securities remaining available for future issuance under equity compensation plans is as follows:

Authorized under the 2013 Plan	1,000
Plus: Awards expired, forfeited or otherwise terminated unexercised from the 2008 LTIP	1
Less: Service-condition options granted	(237)
Less: RSUs granted to non-employee directors	(42)
Available for issuance under the 2013 Plan	722

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

The Company 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. The Company does not enter into derivative contracts for speculative purposes.

Foreign currency forward contracts

The Company may enter into foreign currency forward contracts as economic hedges for exposures related to certain sales, inventory purchases and equipment purchases which are denominated in currencies that are not its functional currency. Foreign currency forward contracts are not designated as hedges by the Company and are marked to market each period and offset by the foreign exchange (gains) losses included in other operating (income) expense, net resulting from the underlying exposures of the foreign currency denominated assets and liabilities. As of September 27, 2015, there were no outstanding foreign currency forward contracts.

Interest rate swap

On May 18, 2012, the Company entered into a five year, $50,000 interest rate swap with Wells Fargo to provide a hedge against the variability of cash flows related to LIBOR-based variable rate borrowings under the Company's ABL Facility. It increased to $85,000 in May 2013 (when certain other interest rate swaps terminated) and has decreased $5,000 per quarter since August 2013 to the current notional balance of $50,000, where it will remain through the life of the instrument. This interest rate swap allows the Company to fix LIBOR at 1.06% and terminates on May 24, 2017.

On November 26, 2012, the Company de-designated the interest rate swap as a cash flow hedge. See "Note 17. Accumulated Other Comprehensive Loss" for detail regarding the reclassifications of amounts from accumulated other comprehensive loss related to the interest rate swap.

Contingent consideration

On December 2, 2013, the Company acquired certain assets in a business combination with Dillon and recorded a contingent consideration liability. The fair value of the contingent consideration is measured at each reporting period using a discounted cash flow methodology based on inputs not observable in the market (Level 3 classification in the fair value hierarchy). The inputs to the discounted cash flow model include the estimated payments through the term of the agreement based on an agreed-upon definition and schedule, adjusted to risk-neutral estimates using a market price of risk factor that considers relevant metrics of comparable entities, discounted using an observable cost of debt over the term of the estimated payments. Any change in the fair value from either the passage of time or events occurring after the acquisition date is recorded in other operating (income) expense, net. There have been no significant changes to the inputs or assumptions used to develop the fair value measurement since the acquisition date.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

A reconciliation of the changes in the fair value follows:

Contingent consideration as of June 28, 2015	$2,207
Changes in fair value	32
Payments	(457)
Contingent consideration as of September 27, 2015	$1,782

Based on the present value of the expected future payments, $563 is reflected in accrued expenses and $1,219 is reflected in other long-term liabilities.

The Company's financial assets and liabilities accounted for at fair value on a recurring basis and the level within the fair value hierarchy used to measure these items are as follows:

As of September 27, 2015	Notional Amount	USD Equivalent	Balance Sheet Location	Fair Value Hierarchy	Fair Value
Interest rate swap	USD $ 50,000	$50,000	Other long-term liabilities	Level 2	$(396)
Contingent consideration	—	—	Accrued expenses and other long-term liabilities	Level 3	$(1,782)

As of June 28, 2015	Notional Amount	USD Equivalent	Balance Sheet Location	Fair Value Hierarchy	Fair Value
Interest rate swap	USD $ 50,000	$50,000	Other long-term liabilities	Level 2	$(280)
Contingent consideration	—	—	Accrued expenses and other long-term liabilities	Level 3	$(2,207)

Estimates for the fair value of the interest rate swap are obtained from month-end market quotes for contracts with similar terms.

By entering into derivative instrument contracts, the Company exposes itself to counterparty credit risk. The Company attempts to minimize this risk by selecting counterparties with investment grade credit ratings, limiting the amount of exposure to any single counterparty and regularly monitoring its market position with each counterparty. The Company's derivative instruments do not contain any credit-risk-related contingent features.

The Company believes that there have been no significant changes to its credit risk profile or the interest rates available to the Company for debt issuances with similar terms and average maturities and the Company 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.

There were no transfers into or out of the levels of the fair value hierarchy for the three months ended September 27, 2015 and September 28, 2014.

Non-Financial Assets and Liabilities

The Company did not have any non-financial assets or liabilities that were required to be measured at fair value on a recurring basis.

17. Accumulated Other Comprehensive Loss

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

	Foreign Currency Translation Adjustments	**Unrealized (Loss) Gain On Interest Rate Swap**	**Accumulated Other Comprehensive Loss**
Balance at June 28, 2015	$ (26,752)	$ (147)	$ (26,899)
Other comprehensive (loss) income, net of tax	(11,437)	19	(11,418)
Balance at September 27, 2015	$ (38,189)	$ (128)	$ (38,317)

19

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

A summary of the pre-tax and after-tax effects of the components of other comprehensive loss for the three months ended September 27, 2015 and September 28, 2014 is provided as follows:

	For the Three Months Ended September 27, 2015	
	Pre-tax	**After-tax**
Other comprehensive (loss) income:		
Foreign currency translation adjustments	$(11,038)	$(11,038)
Foreign currency translation adjustments for an unconsolidated affiliate	(399)	(399)
Reclassification adjustment on interest rate swap	19	19
Other comprehensive loss, net	$(11,418)	$(11,418)

	For the Three Months Ended September 28, 2014	
	Pre-tax	**After-tax**
Other comprehensive (loss) income:		
Foreign currency translation adjustments	$(7,041)	$(7,041)
Reclassification adjustment on interest rate swap	104	104
Other comprehensive loss, net	$(6,937)	$(6,937)

18. Computation of Earnings Per Share

The computation of basic and diluted earnings per share ("EPS") is as follows:

	For the Three Months Ended	
	September 27, 2015	**September 28, 2014**

Basic EPS		
Net income attributable to Unifi, Inc.	$8,025	$ 7,077
Weighted average common shares outstanding	17,921	18,289
Basic EPS	$0.45	$ 0.39
Diluted EPS		
Net income attributable to Unifi, Inc.	$8,025	$ 7,077
Weighted average common shares outstanding	17,921	18,289
Net potential common share equivalents – stock options and RSUs	629	601
Adjusted weighted average common shares outstanding	18,550	18,890
Diluted EPS	$0.43	$ 0.37
Excluded from the calculation of common share equivalents:		
Anti-dilutive common share equivalents	155	177
Excluded from the calculation of diluted shares:		
Unvested options that vest upon achievement of certain market conditions	—	13

The calculation of earnings per common share is based on the weighted average number of the Company's common shares outstanding for the applicable period. The calculation of diluted earnings per common share 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.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

19. Other Operating (Income) Expense, Net

Other operating (income) expense, net consists of the following:

	For the Three Months Ended September 27, 2015	September 28, 2014
Foreign currency transaction (gains) losses	$(90)	$ 313
Net (gain) loss on sale or disposal of assets	(64)	141
Other, net	8	146
Other operating (income) expense, net	$(146)	$ 600

20. Investments in Unconsolidated Affiliates and Variable Interest Entities

Parkdale America, LLC

In June 1997, the Company and Parkdale Mills, Inc. (“Mills”) entered into a Contribution Agreement that set forth the terms and conditions by which the two companies contributed all of the assets of their spun cotton yarn operations utilizing open-end and air-jet spinning technologies to create Parkdale America, LLC (“PAL”). In exchange for its contribution, the Company received a 34% ownership interest in PAL, which is accounted for using the equity method of accounting. Effective January 1, 2012, Mills’ interest in PAL was assigned to Parkdale Incorporated. PAL is a limited liability company treated as a partnership for income tax reporting purposes. PAL is a producer of cotton and synthetic yarns for sale to the textile industry and apparel market, both foreign and domestic. PAL has 16 manufacturing facilities located primarily in the southeast region of the U.S. and in Mexico. According to its most recently issued audited financial statements, PAL’s five largest customers accounted for approximately 76% of total revenues and 78% of total gross accounts receivable outstanding. As PAL’s fiscal year end is the Saturday nearest to December 31 and its results are considered significant, the Company files an amendment to each Annual Report on Form 10-K on or before 90 days subsequent to PAL’s fiscal year end to provide PAL’s audited financial statements for PAL’s most recent fiscal year. The Company filed an amendment to its 2014 Annual Report on Form 10-K for the fiscal year ended June 29, 2014 on April 2, 2015 to provide PAL’s audited financial statements for PAL’s fiscal year ended January 3, 2015. The Company expects to file an amendment to the 2015 Form 10-K on or before April 1, 2016 to provide PAL’s audited financial statements for PAL’s fiscal year ending January 2, 2016.

The federal government maintains a program providing economic adjustment assistance to domestic users of upland cotton (the "EAP program"). The EAP program offers a subsidy for cotton consumed in domestic production, and the subsidy is paid the month after the eligible cotton is consumed. The subsidy must be used within eighteen months after the marketing year in which it is earned to purchase qualifying capital expenditures in the U.S. for production of goods from upland cotton. The marketing year is from August 1 to July 31. The program provides a subsidy of up to three cents per pound. In February 2014, the federal government extended the EAP program for five years. The cotton subsidy will remain at three cents per pound for the life of the program. PAL recognizes its share of income for the cotton subsidy when the cotton has been consumed and the qualifying assets have been acquired, with an appropriate allocation methodology considering the dual criteria of the subsidy.

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 in order to protect the gross margin of fixed-priced yarn sales. The derivative instruments used are listed and traded on an exchange and are thus valued using quoted prices classified within Level 1 of the fair value hierarchy. As of September 2015, PAL had no futures contracts designated as cash flow hedges.

As of September 27, 2015, the Company's investment in PAL was $110,538 and reflected within investments in unconsolidated affiliates in the Consolidated Balance Sheets. The reconciliation between the Company's share of the underlying equity of PAL and its investment is as follows:

Underlying equity as of September 27, 2015	$128,859
Initial excess capital contributions	53,363
Impairment charge recorded by the Company in 2007	(74,106)
Anti-trust lawsuit against PAL in which the Company did not participate	2,652
EAP adjustments	(230)
Investment as of September 27, 2015	$110,538

On August 28, 2014, PAL acquired the remaining 50% ownership interest in a yarn manufacturer and related entities based in Mexico (referred to as the Summit Entities). The acquisition increases PAL's regional manufacturing capacity and expands its product offerings and customer base. PAL accounted for the transaction as a business combination under the acquisition method, recognizing the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. The Company and PAL concluded that the acquisition did not represent a material business combination. Upon completion of purchase accounting, PAL recognized a bargain purchase gain of $4,430 and recorded acquired net assets of $23,644, as reflected in PAL's audited financial statements for PAL's fiscal year ended January 3, 2015.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

On February 27, 2015, PAL purchased two manufacturing facilities, plus inventory, for approximately $13,000 cash, and entered into a yarn supply agreement with the seller. PAL has accounted for the transaction as a business combination under the acquisition method, recognizing the assets acquired and liabilities assumed at their respective provisional fair values as of the acquisition date. The Company and PAL concluded that the acquisition did not represent a material business combination. PAL has recognized a provisional bargain purchase gain of approximately $9,381 in its initial accounting for the acquisition for all identified assets and liabilities. The Company and PAL will continue to review the acquisition accounting during the measurement period, and if new information obtained about facts and circumstances that existed at the acquisition date identifies adjustments to the assets or liabilities initially recognized, as well as any additional assets or liabilities that existed at the acquisition date, the acquisition accounting will be revised to reflect the resulting adjustments to the provisional amounts. The acquisition accounting is incomplete, primarily pending final asset valuations.

U.N.F. Industries Ltd.

In September 2000, the Company and Nilit Ltd. ("Nilit") formed a 50/50 joint venture, U.N.F. Industries Ltd. ("UNF"), for the purpose of operating nylon extrusion assets to manufacture nylon POY. Raw material and production services for UNF are provided by Nilit 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

In October 2009, the Company and Nilit America Inc. ("Nilit America") formed a 50/50 joint venture, UNF America LLC ("UNF America"), for the purpose of operating a nylon extrusion facility that manufactures nylon POY. Raw material and production services for UNF America are provided by Nilit America under separate supply and services agreements. UNF America'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 UNF America, the Company entered into a supply agreement with UNF and UNF America whereby the Company agreed to purchase all of its first quality nylon POY requirements for texturing (subject to certain exceptions) from either UNF or UNF America. The agreement has no stated minimum purchase quantities and pricing is negotiated every six months, based on market rates. As of September 27, 2015, the Company's open purchase orders related to this agreement were $1,868.

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

	For the Three Months Ended	
	September 27, 2015	September 28, 2014
UNF	$1,021	$ 788
UNF America	7,142	6,768
Total	$8,163	$ 7,556

As of September 27, 2015 and June 28, 2015, the Company had combined accounts payable due to UNF and UNF America of $3,193 and $4,038, respectively.

The Company has determined that UNF and UNF America are variable interest entities ("VIEs") and has also determined that the Company is the primary beneficiary of these entities, based on the terms of the supply agreement. As a result, these entities should be consolidated in the Company's financial results. As the Company purchases substantially all of the output from the two entities, the two entities' balance sheets constitute 3% or less of the Company's current assets, total assets and total liabilities (when excluding reciprocal balances), and such balances are not expected to comprise a larger portion in the future, the Company has not included the accounts of UNF and UNF America in its consolidated financial statements. As of September 27, 2015, the Company's combined investments in UNF and UNF America were $3,910 and are shown within investments in unconsolidated affiliates in the consolidated balance sheets. The financial results of UNF and UNF America are included in the Company's financial statements with a one-month lag, using the equity method of accounting and with intercompany profits eliminated in accordance with the Company's accounting policy. Other than the supply agreement discussed above, the Company does not provide any other commitments or guarantees related to either UNF or UNF America.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

Condensed balance sheet and income statement information for the Company's unconsolidated affiliates (including reciprocal balances) is presented in the following tables. As PAL is defined as significant, its information is separately disclosed.

	As of September 27, 2015		
	PAL	**Other**	**Total**
Current assets	$234,290	$13,250	$247,540
Noncurrent assets	219,738	1,139	220,877
Current liabilities	56,291	4,567	60,858
Noncurrent liabilities	18,739	—	18,739
Shareholders' equity and capital accounts	378,998	9,822	388,820
The Company's portion of undistributed earnings	41,138	1,574	42,712

	As of June 28, 2015		
	PAL	**Other**	**Total**
Current assets	$250,699	$9,273	$259,972
Noncurrent assets	216,708	3,676	220,384
Current liabilities	61,243	4,985	66,228
Noncurrent liabilities	28,935	—	28,935
Shareholders' equity and capital accounts	377,229	7,964	385,193

	For the Three Months Ended September 27, 2015		
	PAL	**Other**	**Total**
Net sales	$224,065	$9,349	$233,414
Gross profit	7,387	2,330	9,717
Income from operations	3,561	1,849	5,410
Net income	5,729	1,858	7,587
Depreciation and amortization	9,694	37	9,731
Cash received by PAL under EAP program	3,184	—	3,184
Earnings recognized by PAL for EAP program	4,354	—	4,354
Distributions received	947	1,000	1,947

As of the end of PAL’s fiscal September 2015 period, PAL’s amount of deferred revenues related to the EAP program was $0.

	For the Three Months Ended September 28, 2014		
	PAL	Other	Total
Net sales	$206,236	$7,360	$213,596
Gross profit	10,969	655	11,624
Income from operations	6,814	293	7,107
Net income	9,964	339	10,303
Depreciation and amortization	7,208	25	7,233
Cash received by PAL under EAP program	4,301	—	4,301
Earnings recognized by PAL for EAP program	4,901	—	4,901
Distributions received	—	—	—

As of the end of PAL’s fiscal September 2014 period, PAL’s amount of deferred revenues related to the EAP program was $0.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

21. Commitments and Contingencies

Collective Bargaining Agreements

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

Environmental

On September 30, 2004, the Company completed its acquisition of the 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 ("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 ("EPA") and the North Carolina Department of Environment and Natural Resources ("DENR") pursuant to the Resource Conservation and Recovery Act Corrective Action program. The Corrective Action program requires DuPont to identify all potential areas of environmental concern ("AOCs"), assess the extent of containment at the identified AOCs and to clean it up to comply with applicable regulatory standards. Effective March 20, 2008, the Company entered into a Lease Termination Agreement associated with conveyance of certain assets at Kinston to DuPont. This agreement terminated the Ground Lease and relieved the Company of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to the Company's period of operation of the Kinston site which was from 2004 to 2008. However, the Company continues to own a satellite service facility acquired in the INVISTA transaction that has contamination from DuPont's operations and is monitored by DENR. This site has been remediated by DuPont, and DuPont has received authority from DENR to discontinue remediation, other than natural attenuation. DuPont's duty to monitor and report to DENR will be transferred to the Company in the future, at which time DuPont must pay the Company for seven years of monitoring and reporting costs and the Company will assume responsibility for any future remediation and monitoring of the site. At this time, the Company 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.

Operating Leases

The Company 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. In addition, Renewables leases farm land for use in growing giant miscanthus. Currently, the Company does not sub-lease any of its leased property.

Other Commitments

The Company has assumed various financial obligations and commitments in the normal course of its operations and financing activities. Financial obligations are considered to represent known future cash payments that the Company is required to make under existing contractual arrangements. During the current quarter, the Company entered into certain agreements to purchase assets in connection with the construction of a plastic bottle processing plant for the Polyester Segment. Unpaid amounts relating to these agreements total approximately $12,670, and relate to equipment not yet received by the Company.

22. Related Party Transactions

For details regarding the nature of certain related party relationships, see “Note 25. Related Party Transactions” included in the 2015 Form 10-K. There were no new related party transactions during the three months ended September 27, 2015.

Related party receivables consist of the following:

	September 27, 2015	June 28, 2015
Cupron, Inc.	$ 26	$ 72
Salem Global Logistics, Inc.	15	3
Total related party receivables (included within receivables, net)	$ 41	$ 75

Related party payables consist of the following:

	September 27, 2015	June 28, 2015
Cupron, Inc.	$ 574	$ 506
Salem Leasing Corporation	263	277
Total related party payables (included within accounts payable)	$ 837	$ 783

Related party transactions consist of the following:

Affiliated Entity	Transaction Type	For the Three Months Ended September 27, 2015	September 28, 2014
Salem Leasing Corporation	Transportation equipment costs	$945	$ 950
Salem Global Logistics, Inc.	Freight service income	62	69
Cupron, Inc.	Sales	105	341
Invemed Associates LLC	Brokerage services	4	2

Through April 24, 2015, Mr. Mitchel Weinberger was a member of the Company's Board and President and Chief Operating Officer of Dillon. Related party transaction amounts disclosed in prior periods are omitted from current disclosures as entities affiliated with Mr. Weinberger no longer constitute related parties of the Company.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

23. Business Segment Information

The Company has three reportable segments. Operations and revenues for each segment are described below:

The Polyester Segment manufactures Chip, POY, textured, dyed, twisted, beamed and draw wound yarns, both virgin and recycled, with sales primarily to other yarn manufacturers and knitters and weavers that produce yarn and/or fabric for the apparel, hosiery, automotive upholstery, home furnishings, industrial and other end-use markets. The Polyester Segment consists of sales and manufacturing operations in the U.S. and El Salvador.

The Nylon Segment manufactures textured yarns (both nylon and polyester) and spandex covered yarns, 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 U.S. and Colombia.

The International Segment's products primarily include textured polyester and various types of resale yarns and staple fiber. The International Segment sells its yarns to knitters and weavers that produce fabric for the apparel, automotive upholstery, home furnishings, industrial and other end-use markets primarily in the South American and Asian regions. This segment includes a manufacturing location and sales offices in Brazil and a sales office in China.

In addition to its reportable segments, the Company's selected financial information includes an All Other category. All Other consists primarily of Renewables (an operating segment that does not meet quantitative thresholds for reporting), for-hire transportation services and consulting services. Revenue for Renewables is 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. For-hire transportation services revenues are derived from performing common carrier services utilizing the Company's fleet of transportation equipment. Revenues for consulting services are derived from providing process improvement and change management consulting services to entities across various industries.

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

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

In fiscal year 2015, the Company evaluated the operating performance of its segments based upon a different metric, referred to as Segment Adjusted Profit, which was defined as segment gross profit, plus segment depreciation and amortization, less segment SG&A expenses, plus segment other adjustments. SG&A expenses and other adjustments are no longer significant to the segment evaluations performed by the chief operating decision maker. The Company is providing current and comparative selected financial information below under the current method of evaluating segment profitability.

The accounting policies for the segments are consistent with the Company's accounting policies. Intersegment sales are omitted from the below financial information, as they are (i) insignificant to the Company's segments and consolidated operations and (ii) excluded from segment evaluations performed by the chief operating decision maker.

Selected financial information is presented below. As described in note 2, certain amounts previously reported, which comprise operating income for the three months ended September 28, 2014, have been revised to reflect reclassification into the All Other category.

	For the Three Months Ended September 27, 2015				
	Polyester	**Nylon**	**International**	**All Other**	**Total**
Net sales	$90,568	$40,676	$ 29,371	$1,550	$162,165
Cost of sales	81,279	34,494	23,780	1,628	141,181
Gross profit (loss)	9,289	6,182	5,591	(78)	20,984
Segment depreciation expense	2,811	518	221	152	3,702
Segment Profit	$12,100	$6,700	$ 5,812	$74	$24,686

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements – (Continued)

	For the Three Months Ended September 28, 2014				
	Polyester	**Nylon**	**International**	**All Other**	**Total**
Net sales	$92,978	$44,710	$ 36,494	$1,379	$175,561
Cost of sales	82,702	39,561	31,181	1,667	155,111
Gross profit (loss)	10,276	5,149	5,313	(288)	20,450
Segment depreciation expense	2,414	462	727	110	3,713
Segment Profit (Loss)	$12,690	$5,611	$ 6,040	$(178)	$24,163

The reconciliations of segment depreciation expense to consolidated depreciation expense are as follows:

	For the Three Months Ended	
	September 27, 2015	**September 28, 2014**
Polyester	$2,811	$ 2,414
Nylon	518	462
International	221	727
All Other category	152	