UNIFI INC
Form 10-K
August 22, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 24, 2018

OR

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

Commission file number: 1-10542

UNIFI, INC.

(Exact name of registrant as specified in its charter)

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

7201 West Friendly Avenue

Greensboro, North Carolina 27410

(Address of principal executive offices)(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.10 per share	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes No

As of December 22, 2017, the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant was approximately $551,124,384. The registrant has no non-voting stock.

As of August 16, 2018, the number of shares of the registrant's common stock outstanding was 18,373,375.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the registrant's 2018 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K to the extent described herein.

FORWARD-LOOKING STATEMENTS

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

- the competitive nature of the textile industry and the impact of global competition;
- changes in the trade regulatory environment and governmental policies and legislation;
- the availability, sourcing and pricing of raw materials;
- general domestic and international economic and industry conditions in markets where the Company competes, including economic and political factors over which the Company has no control;
- changes in consumer spending, customer preferences, fashion trends and end uses for products;
- the financial condition of the Company's customers;
- the loss of a significant customer or brand partner;
- natural disasters, industrial accidents, power or water shortages, extreme weather conditions and other disruptions at one of our facilities;
- the success of the Company's strategic business initiatives;
- the volatility of financial and credit markets;
- the ability to service indebtedness and fund capital expenditures and strategic initiatives;
- the availability of and access to credit on reasonable terms;
- changes in foreign currency exchange, interest and inflation rates;
- fluctuations in production costs;
- the ability to protect intellectual property;
- the strength and reputation of our brands;
- employee relations;
- the ability to attract, retain and motivate key employees;
- the impact of environmental, health and safety regulations;
- the operating performance of joint ventures and other equity investments;
- the accurate financial reporting of information from equity method investees; and
- other factors discussed below in "Item 1A. Risk Factors" or the Company's other periodic reports and information filed with the Securities and Exchange Commission.

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

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED JUNE 24, 2018

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Fiscal Year

The fiscal year for Unifi, Inc. and its subsidiary in El Salvador ends on the last Sunday in June. Unifi, Inc.’s fiscal 2018, 2017 and 2016 ended on June 24, 2018, June 25, 2017 and June 26, 2016, respectively. Unifi, Inc.’s Brazilian, Chinese, Colombian and Sri Lankan subsidiaries’ fiscal years end on June 30th. There were no significant transactions or events that occurred between Unifi, Inc.’s fiscal year end and such wholly owned subsidiaries’ subsequent fiscal year ends. Unifi, Inc.’s fiscal 2018, 2017 and 2016 each consisted of 52 fiscal weeks.

Presentation

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

PART I

Item 1. Business

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 (UNIFI's direct customers) that produce yarn and/or fabric for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets (UNIFI's indirect customers). We refer to these indirect customers as "brand partners." Polyester yarns include partially oriented yarn ("POY"), textured, solution and package dyed, twisted, beamed and draw wound yarns, and each is available in virgin or recycled varieties. Recycled solutions, made from both pre-consumer and post-consumer waste, include plastic bottle flake ("Flake") and polyester polymer beads ("Chip"). Nylon yarns include virgin or recycled textured, solution dyed and spandex covered yarns.

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

UNIFI has direct 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 significant unconsolidated affiliate that produces cotton and synthetic yarns for sale to the global textile industry and apparel market. We believe the investment in PAL provides strategic diversification for UNIFI's overall business in response to global textile trends. PAL is a limited liability company treated as a partnership for income tax reporting purposes.

UNIFI has three reportable segments:

- The Polyester Segment primarily sells polyester-based products to other yarn manufacturers and knitters and weavers that produce yarn and/or fabric for the apparel, hosiery, home furnishings, automotive, industrial and other end use markets. The Polyester Segment consists of sales and manufacturing operations in the United States and El Salvador.
- The Nylon Segment primarily sells nylon-based products to knitters and weavers that produce fabric for the apparel and hosiery markets. The Nylon Segment consists of sales and manufacturing operations in the United States and Colombia.
- The International Segment primarily sells polyester-based products to knitters and weavers that produce fabric for the apparel, home furnishings, automotive, industrial and other end-use markets principally in South America and Asia. The International Segment includes a manufacturing location in Brazil and sales offices in Brazil, China and Sri Lanka.

Other information for UNIFI's reportable segments is provided in Note 25, "Business Segment Information," to the accompanying consolidated financial statements. In addition to UNIFI's reportable segments, UNIFI conducts certain ancillary operations that include for-hire transportation services, which comprise an All Other category. The ancillary operations classified within All Other are immaterial to UNIFI's consolidated financial statements.

Operating and Strategic Overview

UNIFI reported net income of $31,702, or $1.70 per diluted share, for fiscal 2018. Such results reflect the benefits of (i) growth in sales of PVA products, especially in the International Segment and (ii) an effective tax rate lower than recent prior years, partially offset by (a) an increasing raw materials cost environment coupled with a challenging domestic landscape in which achieving corresponding selling price adjustments was increasingly difficult against cost-competitive imports and (b) increased selling, general and administrative (“SG&A”) expenses for talent acquisition, marketing and commercial expansion. The International Segment continued strong performance, and growth was due to the global success of UNIFI’s PVA portfolio. UNIFI’s effective tax rate was relatively low compared to historical levels, due primarily to the reversal of both a significant uncertain tax position and a valuation allowance on certain historical net operating losses (“NOLs”). The Polyester Segment was adversely impacted by increases in the costs of raw materials along with pricing and demand challenges in North and Central America, and global trends for nylon products continued to pressure the results of the Nylon Segment.

We believe UNIFI’s successful performance during recent fiscal years reflects the strength of our global initiative to deliver PVA solutions to customers and brand partners throughout the world. Our supply chain has been developed and enhanced in multiple regions of the globe, allowing us to deliver a diverse range of synthetic fibers and polymers to key customers in the markets we serve, especially apparel. These polyester and nylon products are supported by quality assurance, product development and other customer service teams across UNIFI’s operating subsidiaries. We have developed this successful operating platform by: improving operational and business processes; enriching the product mix by growing sales of higher-margin PVA products; and deriving value from sustainability-based initiatives, including polyester and nylon recycling.

This platform has provided growth in our core operations during recent fiscal years, and has been augmented by significant capital investments that support the production and delivery of sustainable and innovative solutions. In order to achieve further growth, UNIFI is committed to investing strategically and synergistically in:

1. Technology, innovation and sustainability;
2. High-quality brand and supplier partnerships; and
3. Supply chain expansion and optimization.

We believe that further commercial expansion will require a continued stream of new technology and innovation that generates products with consumer-meaningful benefits. Along with REPREVE®, the Company has significant yarn technologies that provide optimal performance characteristics for today's marketplace, including moisture management, temperature moderation, and fire retardation. To achieve further growth, UNIFI plans to invest in leading-edge technology and innovation, bringing to market the next wave of fibers and polymers for tomorrow's applications. As we invest and grow, sustainability remains at our core. We believe that increasing the awareness for recycled solutions in applications across fibers and polymers, particularly with PVA solutions, and furthering sustainability-based initiatives with like-minded brand partners will be key to our future success. Growth will also require high-quality partnerships. With a changing retail landscape and a dynamic consumer, brands are demanding fast fashion and localized supply chains. In order to capitalize on these shifts, we expect to identify and enter into partnerships and commercial relationships that expand our global footprint in strategic regions. As the Americas and Asia remain significant components of the global supply chain, UNIFI will be diligent in exploring partnerships that advance our existing growth platform in these regions.

Executing on these initiatives is expected to drive expansion in gross margin and should lead to an increase in revenue and profitability.

Further discussion of the significant components of UNIFI's recent success and its capital allocation strategies is included in this Annual Report on Form 10-K (this "Annual Report").

PVA Products and REPREVE®

UNIFI remains committed to growing the business for its PVA products and believes its research and development work with brands and retailers continues to create new, worldwide sales opportunities. UNIFI's goal is to increase its global PVA sales by more than 10% per year and generate overall mix enrichment and margin gains. UNIFI's PVA products represented approximately 45% of consolidated net sales in fiscal 2018, delivering anticipated growth over fiscal 2017's achievement of 40%. The Company's strategy of enhancing its product mix through a focus on PVA products has helped establish UNIFI as an innovation leader in its core markets and provides some insulation from the pressures of low-priced commodity yarn imports.

REPREVE® is our flagship brand in UNIFI's PVA portfolio and is our fastest growing brand. As part of our efforts to expand consumer brand recognition of REPREVE®, UNIFI has developed recycling-focused sponsorships with various brand partners and other entities that span across sporting, music and outdoor events. The increasing success and awareness of the REPREVE® brand continues to provide new opportunities for growth, allowing us to expand into new end uses and markets for REPREVE®, as well as continuing to grow the brand with current customers. This has driven traction with global brands and retailers who obtain value and lasting consumer interest from the innovation and sustainability aspects that REPREVE® provides.

PVA Expansion and Capital Investments

Beginning in fiscal 2015, UNIFI began a significant, three-year capital investment plan to increase its PVA capabilities and capacity, expand its technological foundation and customize its asset base to improve its ability to deliver small-lot and high-value solutions. These investments were primarily for the Polyester Segment.

Most notably, UNIFI has made significant investments in the production and supply chain for REPREVE®, including backward integration with a bottle processing plant and additional production lines in the REPREVE® Recycling Center. Further, UNIFI (i) installed bi-component spinning machinery to produce specialized high-value yarns and (ii) made machinery modifications to meet the ever-changing demands of the market, in support of the PVA product portfolio, all while (iii) investing in routine capital maintenance to ensure high-quality manufacturing.

Specific to fiscal 2018, we invested approximately $25,000 in capital projects, which included (i) completing the fourth production line in the REPREVE® Recycling Center, (ii) making further improvements in production capabilities and technology enhancements in the Americas and (iii) annual maintenance capital expenditures.

In fiscal 2019, UNIFI expects to invest an additional $25,000 in capital projects, which will include (i) making further improvements in production capabilities and technology enhancements in the Americas and (ii) annual maintenance capital expenditures.

UNIFI intends to ensure maintenance capital expenditures are sufficient to allow for continued high-efficiency production. The recent investments and routine maintenance continue to support REPREVE® by ensuring a stream of high-quality raw materials and finished goods. This, combined with further investments in technology, innovation and sustainability, will enhance our ability to continue to grow REPREVE® and other PVA solutions in existing and additional markets.

Stock Repurchases

In addition to capital investments and debt retirement, UNIFI may utilize excess cash for strategic stock repurchases. On April 23, 2014, UNIFI announced that its Board of Directors (the “Board”) had approved a stock repurchase program (the “SRP”) under which UNIFI is authorized to acquire up to $50,000 of its common stock. The SRP has no stated expiration or termination date, and there is no time limit or specific time frame otherwise for repurchases. As of June 24, 2018, UNIFI had repurchased a total of 806 shares, at an average price of $27.79 (for a total of $22,409, inclusive of commission costs) pursuant to the SRP, and $27,603 remained available for repurchases. UNIFI will continue to evaluate opportunities to use excess cash flow from operations or existing borrowings to repurchase additional stock, while maintaining sufficient liquidity to support its operational needs and fund future strategic growth opportunities.

Developments in Principal Markets

Leading up to fiscal 2017, apparel production experienced multi-year growth in the regions covered by the North American Free Trade Agreement (“NAFTA”) and the Dominican Republic—Central America Free Trade Agreement (“CAFTA-DR”), which comprise the principal markets for UNIFI’s Polyester and Nylon Segments. The share of synthetic apparel production for these regions as a percentage of U.S. retail stabilized at approximately 18%, while retail consumption grew. The CAFTA-DR region, which continues to be a competitive alternative to Asian supply chains for textile products, maintained its share of synthetic apparel supply to U.S. retailers. The relative share of synthetic apparel versus cotton apparel as a proportion of the overall apparel market increased and provided growth for the consumption of synthetic yarns within the CAFTA-DR region.

In fiscal 2017 and 2018, UNIFI’s operations in the NAFTA and CAFTA-DR regions experienced fluctuations in demand as the retail and apparel markets experienced difficult conditions characterized by reduced retail traffic, a weak winter selling season and growth in online sales channels. During calendar 2016 and 2017, these factors combined to cause bankruptcies, store closures and other transformations for traditional retail enterprises. Fiscal 2018 was further adversely impacted by retailers and brand partners seeking more cost competitive textile supplies in response to rising and higher raw material costs. As consumers demand fast fashion, personalized experiences and omni-channel outlets, the retail market and its supply chain is expected to change. Transformational requirements for the supply chain are not yet clear but will be an integral part of UNIFI’s initiatives going forward.

UNIFI’s Brazilian operations play a key role in our global strategy. This subsidiary is primarily impacted by price pressures from imported fiber, fabric and finished goods, the inflation rate in Brazil and changes in the value of the Brazilian Real (“BRL”). Competition and economic and political volatility remain challenging conditions in South America, but UNIFI continues to (i) aggressively pursue mix enrichment by working with customers to develop programs using our differentiated products and PVA yarns and (ii) implement process improvements and manufacturing efficiency gains to help lower per-unit costs.

UNIFI’s Asian operations remain an important part of our global strategy, enhancing our ability to service customers with global supply chains. Competition in the Asian region remains high; however, interest and demand for UNIFI’s PVA products in Asia have helped support strong sales volumes in recent years. We are encouraged by programs undertaken with key brands and retailers that benefit from the diversification and innovation of our global PVA solutions.

UNIFI’s operations in Brazil and Asia have been critical to global growth and expansion of PVA products. Looking ahead, we expect expansion into additional markets in Europe, Africa and the Middle East utilizing the supply chain and service model that has been successful for us in Asia.

As we expand our global operations, we will continue to evaluate the level of capital investment required to support the needs of our customers and intend to appropriately allocate our resources accordingly.

Industry Overview

UNIFI operates in the textile industry and, within that broad category, the respective markets for yarns, fabrics, fibers and end-use products, such as apparel and hosiery, automotive, industrial products and home furnishings. Even though the textile industry is global, there are several distinctive regional or other geographic markets that often shape the business strategies and operations of participants in the industry. Because of free trade agreements and other trade regulations entered into by the U.S. government, the U.S. textile industry, which is otherwise a distinctive geographic market on its own, is often considered in conjunction with other geographic markets or regions in North, South and Central America, such as the regions covered by NAFTA and CAFTA-DR. The Company’s principal markets for its domestic operations are in the regions covered by NAFTA and CAFTA-DR, which together include the countries of Canada, Mexico, Costa Rica, Guatemala, Honduras, El Salvador, Nicaragua, the Dominican Republic and the United States.

According to data compiled by PCI WoodMackenzie, a global leader in research and analysis for the polyester and raw materials markets, global demand for polyester yarns, which includes both filament and staple yarns, has grown steadily since 1980, and, in calendar year 2003, polyester replaced cotton as the fiber with the largest percentage of worldwide sales. In calendar year 2017, global polyester consumption accounted for an estimated 55% of global fiber consumption, and global demand is projected to increase by approximately 3% to 4% annually through 2020. In calendar year 2017, global nylon consumption accounted for an estimated 5% of global fiber consumption. However, the continued decline in the U.S. nylon market during fiscal 2018 had an unfavorable impact on UNIFI's Nylon Segment. Additionally, due to the higher cost of nylon, the industry may transition certain products from nylon to polyester. The polyester and nylon fiber sectors together accounted for approximately 62% of North American textile consumption during calendar year 2017.

According to the National Council of Textile Organizations, the U.S. textile industry's total shipments were approximately $65.4 billion for calendar year 2017 as the U.S. textile and apparel industry exported nearly $28.6 billion of textile and apparel products, and the exports have grown by approximately 42% since 2009, an increase of over $9.7 billion. The U.S. textile industry remains a large manufacturing employer.

Trade Regulation and Rules of Origin

The duty rate on imports into the United States of finished apparel categories that utilize polyester and nylon yarns generally range from 16% to 32%. For many years, imports of fabric and finished goods into the United States have increased significantly from countries that do not participate in free trade agreements or trade preference programs, despite duties charged on those imports. The primary drivers for that growth were lower overseas operating costs, foreign government subsidization of textile industries, increased overseas sourcing by U.S. retailers, the entry of China into the World Trade Organization and the staged elimination of all textile and apparel quotas. Although global apparel imports represent a significant percentage of the U.S. market, Regional FTAs (as defined below), which follow general "yarn forward" rules of origin, provide duty free advantages for apparel made from regional fibers, yarns and fabrics, allowing UNIFI opportunities to participate in this growing market.

A significant number of UNIFI's customers in the apparel market produce finished goods that meet the eligibility requirements for duty-free treatment in the regions covered by NAFTA, CAFTA-DR, and the Colombia and Peru free trade agreements (collectively, the "Regional FTAs"). These Regional FTAs contain rules of origin requirements in order for covered products to be eligible for duty-free treatment. In the case of textiles such as fabric, yarn (such as POY), fibers (filament and staple) and certain garments made from them, the products are generally required to be fully formed within the respective regions. UNIFI is the largest filament yarn manufacturer, and one of the few producers of qualifying synthetic yarns, in the regions covered by these Regional FTAs.

The renegotiation of NAFTA has been a high priority for the Trump administration over the past 18 months. The United States has a positive trade balance in the textile and apparel sector in NAFTA and the Company anticipates any modifications or updates to the agreement in this sector will not significantly impact textile and apparel trade in the NAFTA region. Efforts to conclude the renegotiations this year appear to have been stalled by the political complications surrounding the Mexican presidential election and the U.S. mid-term elections this fall.

U.S. legislation commonly referred to as the "Berry Amendment" stipulates that certain textile and apparel articles purchased by the U.S. Department of Defense must be manufactured in the United States and must consist of yarns and fibers produced in the United States. UNIFI is the largest producer of synthetic yarns for Berry Amendment compliant purchasing programs.

UNIFI refers to fibers sold with specific rules of origin requirements under the Regional FTAs and the Berry Amendment, as “Compliant Yarns.” Approximately two-thirds of UNIFI’s sales within the Polyester and Nylon Segments are sold as Compliant Yarns under the terms of the Regional FTAs or the Berry Amendment.

UNIFI believes the requirements of the rules of origin and the associated duty-free cost advantages in the Regional FTAs, together with the Berry Amendment and the growing demand for supplier responsiveness and improved inventory turns, will ensure that a portion of the existing textile industry will remain based in the Americas. UNIFI expects that the NAFTA and CAFTA-DR regions will continue to maintain their share of apparel production as a percentage of U.S. retail. UNIFI believes the remaining synthetic apparel production within these regional markets is more specialized and defensible, and, in some cases, apparel producers are bringing programs back to the regions as part of a balanced sourcing strategy for some brands and retailers. Because UNIFI is the largest of only a few significant producers of Compliant Yarns under these Regional FTAs, one of UNIFI’s business strategies is to continue to leverage its eligibility status for duty-free processing to increase its share of business with regional and domestic fabric producers who ship their products into these regions.

Over the longer term, the textile industry in the NAFTA and CAFTA-DR regions is expected to continue to be impacted by Asian supply chains where costs are much lower and regulation is limited.

Competition

The industry in which UNIFI operates is global and highly competitive. UNIFI competes not only as a global yarn producer, but also as part of a regional supply chain for certain textile products. For sales of Compliant Yarns, UNIFI competes with a limited number of foreign and domestic producers of polyester and nylon yarns. For sales of non-Compliant Yarns, UNIFI competes with a larger number of foreign and domestic producers of polyester and nylon yarns who can meet the required customer specifications of quality, reliability and timeliness. UNIFI is affected by imported textile, apparel and hosiery products, which adversely impact demand for UNIFI’s polyester and nylon products in certain of its markets. Several foreign competitors in UNIFI’s supply chain have significant competitive advantages, including lower wages, raw material costs and capital costs, and favorable foreign currency exchange rates against the U.S. Dollar (“USD”), any of which could make UNIFI’s products, or the related supply chains, less competitive. While competitors have traditionally focused on high-volume commodity products, they are now increasingly focused on specialty and PVA products that UNIFI historically has been able to leverage to generate higher margins.

UNIFI’s major competitors for polyester yarns are O’Mara, Inc. and NanYa Plastics Corp. of America (“NanYa”) in the United States; AKRA, S.A. de C.V. in the NAFTA region; and C S Central America S.A. de C.V. in the CAFTA-DR region. UNIFI’s major competitor in Brazil is Avanti Industria Comercio Importacao e Exportacao Ltda., among other traders of imported yarns and fibers. UNIFI’s operations in Asia face competition from multiple yarn manufacturers in that region and identification of them is not feasible. However, almost all of our portfolio in that region is advantaged by PVA products.

UNIFI’s major competitors for nylon yarns are Sapona Manufacturing Company, Inc. and McMichael Mills, Inc. in the United States.

Raw Materials, Suppliers and Sourcing

The primary raw material supplier for the Polyester Segment of Chip and POY is NanYa. For the International Segment, Reliance Industries, Ltd. is the main supplier of POY. The primary suppliers of POY for the Nylon Segment are HN Fibers, Ltd., U.N.F. Industries Ltd. (“UNF”), UNF America, LLC (“UNFA”), Invista S.a.r.l. (“INVISTA”), Universal Premier Fibers, LLC and Nilit America, Inc. (“Nilit”). Each of UNF and UNFA is a 50/50 joint venture between UNIFI and Nilit. Currently, there are multiple domestic and foreign suppliers available to fulfill UNIFI’s sourcing requirements for its recycled products.

For its operations in the United States, UNIFI produces and buys certain of its raw material fibers for Compliant Yarns from a variety of sources in both the United States and Israel, and UNIFI produces a portion of its Chip requirements in its REPREVE® Recycling Center and purchases the remainder of such requirements from external suppliers for use in its domestic spinning facility to produce POY. In addition, UNIFI purchases nylon and polyester products for resale from various suppliers. Although UNIFI does not generally have difficulty obtaining its raw material requirements, UNIFI has, in the past, experienced interruptions or limitations in the supply of certain raw materials.

The bottle processing facility in Reidsville, North Carolina provides a high-quality source of Flake for the REPREVE® Recycling Center as well as for sale to external parties. Combined with recent technology advancements in recycling, we believe the Flake produced at the bottle processing facility will enhance our ability to grow REPREVE® into other markets, such as nonwovens, carpet fiber and packaging. However, in fiscal 2018, UNIFI experienced an unexpected increase in operating expenses and plastic bottle costs for its bottle processing operations. Additionally, the market dynamics surrounding plastic bottles and Flake became less predictable as new, external plastic bottle recycling capacity was increasing at the same time that UNIFI was increasing its production of Flake.

The prices of the principal raw materials used by UNIFI continuously fluctuate, and it is difficult, and often impossible, to predict trends or upcoming developments. In addition, during fiscal 2017 and 2018, UNIFI operated during a predominantly increasing virgin polyester raw material cost environment. During fiscal 2016, UNIFI experienced a general decline in raw material prices. UNIFI believes that polyester raw material cost fluctuations during most of fiscal 2017 and 2018 were a result of volatility in the crude oil markets. The continuing volatility in global crude oil prices is likely to impact UNIFI's polyester and nylon raw material costs, but it is not possible to predict the timing or amount of the impact or whether the movement in crude oil prices will stabilize, continue or reverse. In any event, UNIFI monitors these dynamic factors closely.

Products, Technologies and Related Markets

UNIFI manufactures and sells polyester yarns and related products in the United States, El Salvador and Brazil, and nylon yarns in the United States and Colombia, for a wide range of end uses. In Asia, UNIFI manages a network of vendors and suppliers to contract manufacture PVA solutions, including our added fiber technologies and REPREVE®, to direct and indirect customers around the globe.

Our products sold across all geographies range from specialty, PVA and commodity. UNIFI's most strategic portfolio, PVA products, comprised approximately 45%, 40% and 35% of consolidated net sales for fiscal 2018, 2017 and 2016, respectively. We provide products to a variety of end-use markets, principally apparel, industrial, furnishings and automotive.

The domestic apparel market, which includes hosiery, represents approximately 60% of UNIFI's domestic sales. Apparel retail sales, supply chain inventory levels and strength of the regional supply base are vital to this market.

The domestic industrial market represents approximately 17% of UNIFI's domestic sales. This market includes medical, belting, tapes, filtration, ropes, protective fabrics and awnings.

The domestic furnishings market, which includes both contract and home furnishings, represents approximately 8% of UNIFI's domestic sales. Furnishings sales are largely dependent upon the housing market, which in turn is influenced by consumer confidence and credit availability.

The domestic automotive market represents approximately 8% of UNIFI's domestic sales and has been less susceptible to import penetration because of the exacting specifications and quality requirements often imposed on manufacturers of automotive fabrics, along with just-in-time delivery requirements. Effective customer service and prompt response to customer feedback are logistically more difficult for an importer to provide.

UNIFI also adds value to the overall supply chain for textile products, and increases consumer demand for UNIFI's own products, through the development and introduction of branded yarns and technologies that provide unique sustainability, performance, comfort and aesthetic advantages. UNIFI's branded portion of its yarn portfolio continues to provide product differentiation to brand partners, mills and consumers, and is based on two core platforms, REPREVE® and PROFIBER™:

REPREVE® is a family of sustainable products made from recycled materials, including plastic bottles. Since its introduction in 2006, REPREVE® has become the global leader in branded recycled fibers. REPREVE® recycled fibers may also be customized to provide leading performance and/or aesthetic properties, enabling a differentiated consumer experience. Examples of our branded technologies include:

- TruClean™ and TruDry™ (formerly known as "Sorbtek®"), a permanent moisture management yarn primarily used in performance base-layer applications, performance apparel, athletic wear, socks and other non-apparel related items.
- TruTemp™ (formerly known as "Sorbtek® 365"), a permanent thermal regulation and moisture management yarn primarily used in performance bottom-weight applications, helping to provide year-round comfort.
- TruFlexx™ (formerly known as "Reflexx®"), a family of stretch yarns that can be found in a wide array of end-use applications, from home furnishings to performance wear and from hosiery and socks to work wear and denim.
- TruBounce™ (formerly known as "XS"), yarns that take advantage of a non-traditional cross-section construction created during the spinning process. The cross section is able to provide certain performance and/or functional characteristics in multiple end uses due to its resulting chemical and physical attributes.
- TruTouch™ (formerly known as "Cotton-like®"), a soft, lofty yarn that looks and feels like cotton, but offers the superior performance of synthetic fibers and no fading.
- TruFresh™ (formerly known as "A.M.Y.®"), a yarn with permanent antimicrobial properties for odor control.

PROFIBER™ is a family of virgin material-based performance yarn products that are similarly customizable with a broad selection of industry leading technologies designed to deliver an array of consumer benefits.

UNIFI's branded yarns can be found in a variety of products of well-known brands, retailers and department stores, including Ford, Haggar, Polartec, Under Armour, The North Face, Patagonia, Quiksilver, Roxy, General Motors, Volcom, Pottery Barn, Lane Bryant, adidas, Nike, New Era Hat, MJ Soffe, Abercrombie & Fitch, Levi's, H&M, TARGET, Express, PACSUN, PVH, Costco Wholesale, REI, Cabela's, JCPenney, Macy's, Kohl's and Belk.

In addition to the above brands and products, UNIFI combines its research and development efforts with the demands of customers and markets to develop innovative technologies that enhance yarn characteristics. Application of these technologies allows for various, separate benefits, including, among other things, water repellency, flame retardation, soil release, enhanced color-fastness achieved with less water use and protection from ultra-violet rays.

Customers

UNIFI's Polyester Segment has approximately 350 customers, its Nylon Segment has approximately 130 customers and its International Segment has approximately 800 customers, all in a variety of geographic markets. UNIFI's products are manufactured according to customer specifications and are shipped based upon customer order requirements. Customer payment terms are generally consistent with prevailing industry practices for the geographies in which we participate.

UNIFI's consolidated net sales are not materially dependent on a single direct customer and no single direct customer accounts for 10% or more of UNIFI's consolidated net sales. UNIFI's top 10 direct customers accounted for approximately 29% of consolidated net sales for fiscal 2018 and approximately 33% of receivables as of June 24, 2018. However, UNIFI's consolidated net sales are dependent on demand from a relatively small number of brand partners. UNIFI's net sales within its Nylon Segment are materially dependent upon a domestic customer that accounted for approximately 32% of the Nylon Segment's net sales for fiscal 2018.

Sales and Marketing

UNIFI employs an internal sales force of approximately 50 persons operating out of sales offices in the United States, Brazil, China, Sri Lanka, El Salvador and Colombia. UNIFI relies on independent sales agents for sales in several other countries. UNIFI seeks to create strong customer relationships and to build and strengthen those relationships throughout the supply chain. Through having frequent communications with customers, partnering in product development and engaging key downstream brands and retailers, UNIFI has created significant pull-through sales and brand recognition for its products. For example, UNIFI works with brands and retailers to educate and create demand for its PVA products, such as recent engagements involving REPREVE® at multiple events and venues in the United States. UNIFI then works with key fabric mill partners to develop specific fabrics for those brands and retailers utilizing its PVA products. In many of these regards, UNIFI draws upon and integrates the resources of its research and development personnel. In addition, UNIFI is enhancing co-branding activations with integrated point-of-sale and online marketing with popular brands and retailers to further enable consumers to find REPREVE® and other PVA brands in multiple retail channels. Based on the establishment of many commercial and branded programs, this strategy has been successful for UNIFI.

Product Customization and Manufacturing Processes

UNIFI uses advanced production processes to manufacture its high-quality products cost-effectively in North America, Central America and South America. UNIFI believes that its flexibility and know-how in producing specialty polyester and nylon products provide important development and commercialization advantages, in addition to the recent ability to vertically integrate with post-industrial and post-consumer materials.

UNIFI produces Flake, polyester Chip and POY using recycled materials. In addition to its yarns manufactured from virgin polyester and nylon, UNIFI sells its recycled products externally or further processes them internally to add value for customers seeking recycled components. The REPREVE® Bottle Processing Center in Reidsville, North Carolina produces Flake that can be sold externally, or further processed internally at our REPREVE® Recycling Center in Yadkinville, North Carolina. Recycled polyester Chip output from the REPREVE® Recycling Center can be sold externally, or further processed internally into polyester POY.

Additional processing of UNIFI’s polyester POY includes texturing, package dyeing, twisting, beaming and draw winding. The texturing process, which is common to both polyester and nylon, involves the use of high-speed machines to draw, heat and false-twist POY to produce yarn with different physical characteristics, depending on its ultimate end use. Texturing gives the yarn greater bulk, strength, stretch, consistent dye-ability and a softer feel, thereby making it suitable for use in the knitting and weaving of fabric. Package dyeing allows for matching of customer-specific color requirements for yarns sold into the automotive fabrics, home furnishings and apparel markets. Twisting incorporates real twist into filament yarns, which can be sold for a variety of uses, such as sewing thread, home furnishings and apparel. Beaming places both textured and covered yarns onto beams to be used by customers in warp knitting and weaving applications. The draw winding process utilizes heat and draws POY to produce mid-tenacity, flat yarns.

Additional processing of UNIFI’s nylon yarn products primarily includes covering and texturing. Covering involves the wrapping or air entangling of filament or spun yarn around a core yarn, primarily spandex. This process enhances a fabric’s ability to stretch, recover its original shape and resist wrinkles while maintaining a softer feel.

UNIFI’s subsidiaries in Asia offer the same high-quality and innovative PVA products and technologies through contract manufacturing arrangements with local manufacturers. This asset-light model allows for seamless integration of our products into the global supply chain of our customers. As we expand our Asian operations to meet the needs of our global customers, we will continue to leverage the asset-light model where the existing Asian infrastructure can accommodate our highly technical processes, while continually evaluating the need for additional UNIFI assets in response to ever-changing market dynamics.

Research and Development

UNIFI employs approximately 100 persons who work closely with UNIFI's customers, brand partners and others to develop a variety of new yarns as well as improvements to the performance properties of existing yarns and fabrics. Among other things, UNIFI evaluates trends and uses the latest technology to create innovative specialty and PVA yarns that meet the needs of evolving consumer preferences. Most of UNIFI's branded yarns discussed above, including its flagship REPREVE® brand, were derived from its research and development initiatives.

UNIFI also includes, as part of its research and development initiatives, the use of continuous improvement methodologies to increase its manufacturing and other operational efficiencies, both to enhance product quality and to derive cost savings.

For fiscal 2018, 2017 and 2016, UNIFI incurred $7,792, $7,177 and $6,907, respectively, in costs for research and development (including salaries and benefits of the personnel involved in those efforts). UNIFI expects research and development costs to increase from fiscal 2018 to fiscal 2019 in connection with further strategic investments in technology, innovation and sustainability.

Intellectual Property

UNIFI has numerous trademarks registered in the United States and in other countries and jurisdictions around the world. Due to its current brand recognition and potential growth opportunities, UNIFI believes that its portfolio of registered REPREVE® trademarks is its most significant trademark asset. Ownership rights in registered trademarks typically do not expire if the trademarks are continued in use and properly protected under applicable law.

UNIFI licenses certain trademarks, including Dacron® and Softec™, from INVISTA.

UNIFI also employs its innovative manufacturing know-how, methods and processes to produce and deliver proprietary PVA solutions to customers and brand partners. UNIFI relies on the copyright and trade secret laws of the United States and other countries, as well as nondisclosure and confidentiality agreements, to protect these rights.

Employees

As of June 24, 2018, UNIFI had approximately 2,900 employees, along with approximately 200 individuals working under temporary labor contracts. The number of employees in the Polyester Segment, Nylon Segment, International Segment and corporate office were approximately 1,700, 500, 600 and 100, respectively, at June 24, 2018. 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. UNIFI believes that it has a good relationship with its employees.

Geographic Data

Geographic information reported in conformance with U.S. generally accepted accounting principles ("GAAP") is included in Note 25, "Business Segment Information," to the accompanying consolidated financial statements. Information regarding risks attendant to UNIFI's foreign operations is included in "Item 1A. Risk Factors" in this Annual Report.

Seasonality

UNIFI is not significantly impacted by seasonality; however, UNIFI typically experiences its highest sales volumes in the fourth quarter of its fiscal years. Excluding the effects of fiscal years with 53 weeks rather than 52 weeks, the most significant effects on UNIFI's results of operations for particular periods during a year are due to planned manufacturing shutdowns by either UNIFI or its customers for certain holiday or traditional shutdown periods, which are not concentrated in any one particular quarter.

Backlog

UNIFI's level of unfilled orders is affected by many factors, including the timing of specific orders and the delivery time for specific products, as well as a customer's ability or inability to cancel the related order. As such, UNIFI does not consider the amount of unfilled orders, or backlog, to be a meaningful indicator of expected levels of future sales or to be material to an understanding of UNIFI's business as a whole.

Working Capital

UNIFI funds its working capital requirements through cash flows generated from operations, which it supplements with short-term borrowings, as needed. For more detailed information, see "Liquidity and Capital Resources" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report.

Inflation

UNIFI expects costs to continue to rise for certain consumables used to produce and ship its products, as well as for its utilities and certain employee costs and benefits. While UNIFI attempts to mitigate the impacts of such rising costs through increased operational efficiencies and increased selling prices, inflation could become a factor that negatively impacts UNIFI's profitability.

Environmental Matters

UNIFI is subject to various federal, state and local environmental laws and regulations limiting the use, storage, handling, release, discharge and disposal of a variety of hazardous substances and wastes used in or resulting from its operations (and to potential remediation obligations thereunder). These laws include the Federal Water Pollution Control Act, the Clean Air Act, the Resource Conservation and Recovery Act (including provisions relating to underground storage tanks) and the Comprehensive Environmental Response, Compensation, and Liability Act, commonly referred to as "Superfund" or "CERCLA," and various state counterparts to such laws. UNIFI's operations are also governed by laws and regulations relating to workplace safety and worker health, principally the Occupational Safety and Health Act and regulations issued thereunder, which, among other things, establish exposure standards regarding hazardous materials and noise standards, and regulate the use of hazardous chemicals in the workplace.

UNIFI believes that it has obtained, and is in compliance in all material respects with, all significant permits required to be issued by federal, state or local law in connection with the operation of its business. UNIFI also believes that the operation of its production facilities and its disposal of waste materials are substantially in compliance with applicable federal, state and local laws and regulations, and that there are no material ongoing or anticipated capital expenditures associated with environmental control facilities necessary to remain in compliance with such provisions. UNIFI incurs normal operating costs associated with the discharge of materials into the environment, but does not believe that these costs are material or inconsistent with those of its domestic competitors.

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

UNIFI continues to own property acquired in the 2004 transaction with INVISTA that has contamination from DuPont's operations and is monitored by DEQ. This site has been remediated by DuPont, and DuPont has received authority from DEQ to discontinue further remediation, other than natural attenuation. Prior to transfer of responsibility to UNIFI, DuPont has a duty to monitor and report the environmental status of the site to DEQ. UNIFI expects to assume that responsibility in calendar 2018 and will be entitled to receive from DuPont seven years of monitoring and reporting costs, less certain adjustments. At that time, UNIFI expects to 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.

Joint Ventures and Unconsolidated Affiliates

In addition to its 34% ownership in PAL, UNIFI participates in two joint ventures that supply raw materials to the Nylon Segment, with one located in the United States and one in Israel. As of June 24, 2018, UNIFI had $112,639 recorded for these investments in unconsolidated affiliates. For fiscal 2018, $5,787 of UNIFI's $30,211 of income before income taxes was generated from its investments in these unconsolidated affiliates, of which $4,533 was attributable to PAL. Other information regarding UNIFI's unconsolidated affiliates is provided in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 22, "Investments in Unconsolidated Affiliates and Variable Interest Entities," to the accompanying consolidated financial statements in this Annual Report.

On December 23, 2016, UNIFI, through a wholly owned foreign subsidiary, sold its 60% equity ownership interest in Repreve Renewables, LLC ("Renewables"), an entity that was focused on the development, production and commercialization of miscanthus grass for use in multiple potential markets, to its existing third-party joint venture partner for $500 in cash and release of certain debt obligations. UNIFI had no continuing involvement in the operations of Renewables subsequent to December 23, 2016. The corresponding results of Renewables, up through the date of sale, are reflected in continuing operations within the accompanying consolidated financial statements.

Available Information

UNIFI's website is www.unifi.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as proxy statements and other information we file with, or furnish to, the Securities and Exchange Commission (the "SEC") are available free of charge on our website. We make these documents available as soon as reasonably practicable after we electronically transmit them to the SEC. Except as otherwise stated in these documents, the information on our website is not a part of this Annual

Report and is not incorporated by reference in this Annual Report or any of our other filings with the SEC. In addition, many of our corporate governance documents are available on our website, including our Audit Committee Charter, Compensation Committee Charter, Corporate Governance and Nominating Committee Charter, Corporate Governance Guidelines, Code of Business Conduct and Ethics, Ethical Business Conduct Policy Statement and Code of Ethics for Senior Financial and Executive Officers. Copies of such materials, as well as any of our SEC reports and all amendments thereto, may also be obtained without charge by writing to Unifi, Inc., 7201 West Friendly Avenue, Greensboro, North Carolina 27410, Attention: Office of the Secretary.

Item 1A. Risk Factors

Many of the factors that affect UNIFI's business and operations involve risk and uncertainty. The factors described below are some of the risks that could materially negatively affect UNIFI's business, financial condition, results of operations and cash flows. You should consider all such risks in evaluating UNIFI or making any investment decision involving UNIFI.

UNIFI faces intense competition from a number of domestic and foreign yarn producers and importers of foreign-sourced fabric, apparel and other textile products. Because UNIFI and the supply chains in which UNIFI conducts its business do not typically operate on the basis of long-term contracts with textile customers or brand partners, these competitive factors could cause UNIFI's customers or brand partners to shift rapidly to other producers.

UNIFI competes not only against domestic and foreign yarn producers, but also against importers of foreign-sourced fabric, apparel and other textile products into the United States and other countries in which UNIFI does business (particularly in Brazil with respect to commodity yarn products). The primary competitive factors in the textile industry include price, quality, product styling, performance attributes and differentiation, brand reputation, flexibility and location of production and finishing, delivery time and customer service. The needs of certain customers and brand partners and the characteristics of particular products determine the relative importance of these various factors. A large number of UNIFI's foreign competitors have significant competitive advantages that may include lower labor and raw material costs, production facilities in locations outside UNIFI's existing supply chain, government subsidies and favorable foreign currency exchange rates against the USD. If any of these advantages increase, or if new and/or larger competitors emerge in the future, or if UNIFI's brand reputation is detrimentally impacted, then UNIFI's products could become less competitive, and its sales and profits may decrease as a result. In particular, devaluation of the Chinese currency against the USD could result in UNIFI's products becoming less competitive from a pricing standpoint and/or could result in the regions covered by NAFTA and CAFTA-DR losing market share to Chinese imports, thereby adversely impacting UNIFI's sales and profits. Also, while these foreign competitors have traditionally focused on commodity production, they are now increasingly focused on PVA products, where UNIFI has been able to generate higher margins. UNIFI may not be able to continue to compete effectively with foreign-made textile and apparel products, which would materially adversely affect its business, financial condition, results of operations or cash flows. Similarly, to maximize their own supply chain efficiency, customers and brand partners sometimes request that UNIFI's products be produced and sourced from specific geographic locations that are in close proximity to the customer's fabric mills or that have other desirable attributes from the customer's perspective. These locations are sometimes situated outside the footprint of UNIFI's existing global supply chain. If UNIFI is unable to move production based on customer requests or other shifts in regional demand, we may lose sales and experience an adverse effect on our business, financial condition, results of operations or cash flows.

A significant portion of our sales is dependent upon demand from a few large brand partners.

UNIFI's strategy involves the sale of products and solutions to other yarn manufacturers and knitters and weavers (UNIFI's direct customers) that produce yarn and/or fabric for brands and retailers in the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets (UNIFI's indirect customers). We refer to these indirect customers as "brand partners." Although we generally do not derive revenue directly from our brand partners, sales volumes to our direct customers are linked with demand from our brand partners because our direct sales generally form a part of our brand partner's supply chain. A significant portion of our overall sales is tied to ongoing programs for a small number of brand partners. Our future operating results depend on both the success of our largest brand partners and on our success in diversifying our products and our indirect customer base. Because we typically do not operate on the basis of long-term contracts, our customers and brand partners can cease incorporating our products into their own with little notice to us and with little or no penalty. The loss of a large brand partner, and the failure to add new customers to replace the corresponding lost sales, would have a material adverse effect on our business, financial condition, results of operations and cash flows.

Significant price volatility of UNIFI's raw materials and rising energy costs may result in increased production costs. UNIFI attempts to pass such increases in production costs on to its customers through responsive price increases. However, any such price increases are effective only after a time lag that may span one or more periods, during which UNIFI and its margins are negatively affected.

Petroleum-based chemicals and recycled plastic bottles comprise a significant portion of UNIFI's raw materials. The prices for these products and energy costs are volatile and dependent on global supply and demand dynamics, including geo-political risks. While UNIFI enters into raw material supply agreements from time to time, these agreements typically provide index pricing based on quoted market prices. Therefore, supply agreements provide only limited protection against price volatility. UNIFI attempts to pass on to its customers increases in raw material costs but at times it cannot and, when it can, there is typically a time lag that adversely affects UNIFI and its margins during one or more periods. Certain customers are subject to an index-based pricing model in which UNIFI's prices are adjusted based on the change in the cost of certain raw materials in the prior quarter. Pricing adjustments for other customers must be negotiated independently. In ordinary market conditions in which raw material price increases have stabilized and sales volumes are consistent with traditional levels, UNIFI has historically been successful in implementing price adjustments within one to two fiscal quarters of the raw material price increase for its index priced customers and within two fiscal quarters of the raw material price increase for its non-index priced customers. UNIFI has lost in the past (and expects that it may lose in the future) customers to its competitors as a result of price increases. In addition, competitors may be able to obtain raw materials at a lower cost due to market regulations that favor local producers in certain foreign locations where UNIFI operates, and certain other market regulations that favor UNIFI over other producers may be amended or repealed. Additionally, inflation can have a long-term impact by increasing the costs of materials, labor and/or energy, any of which costs may adversely impact UNIFI's ability to maintain satisfactory margins. If UNIFI is not able to fully pass on such cost increases to customers in a timely manner (or if it loses a large number of customers to competitors as a result of price increases), the result could be material and adverse to its business, financial condition, results of operations or cash flows.

Depending on the price volatility of petroleum-based inputs, recycled bottles and other raw materials, the price gap between virgin raw materials and recycled bottle flake could make virgin raw materials more cost-effective than recycled raw materials, which could result in an adverse effect on UNIFI's ability to sell its REPREVE® brand recycled products profitably.

UNIFI depends on limited sources for certain of its raw materials, and interruptions in supply could increase its costs of production, cause production inefficiencies or lead to a halt in production.

UNIFI depends on a limited number of third parties for certain raw material supplies, such as POY, Chip and recycled plastic bottles. Although alternative sources of raw materials exist, UNIFI may not be able to obtain adequate supplies of such materials on acceptable terms, or at all, from other sources. UNIFI is dependent on NAFTA, CAFTA-DR and Berry Amendment qualified suppliers of raw materials for the production of Compliant Yarns. These suppliers are also at risk with their raw material supply chains. Any significant disruption or curtailment in the supply of any of its raw materials could cause UNIFI to reduce or cease its production for an extended period, or require UNIFI to increase its pricing, any of which could have a material adverse effect on its business, financial condition, results of operations or cash flows.

A disruption at one of our facilities could harm our business and result in significant losses, lead to a decline in sales and increase our costs and expenses.

Our operations and business could be disrupted by natural disasters, industrial accidents, power or water shortages, extreme weather conditions and other man-made disasters or catastrophic events. We carry commercial property damage and business interruption insurance against various risks, with limits we deem adequate for reimbursement for damage to our fixed assets and resulting disruption of our operations. However, the occurrence of any of these business disruptions could harm our business and result in significant losses, lead to a decline in sales and increase our costs and expenses. Any disruptions from these events could require substantial expenditures and recovery time in order to fully resume operations and could also have a material adverse effect on our operations and financial results to the extent losses are uninsured or exceed insurance recoveries and to the extent that such disruptions adversely impact our relationships with our customers.

UNIFI has significant foreign operations, and its consolidated results of operations and business may be adversely affected by the risks associated with doing business in foreign locations, including the risk of fluctuations in foreign currency exchange rates.

UNIFI has operations in Brazil, China, Colombia, El Salvador and Sri Lanka, and participates in a joint venture located in Israel. In addition, to help service its customers, UNIFI from time to time engages with third-party independent contractors to provide sales and distribution, manufacturing and other operational and administrative support services in locations around the world. UNIFI serves customers throughout the Americas and Asia, as well as various countries in Europe. UNIFI's foreign operations are subject to certain political, tax, economic and other uncertainties not encountered by its domestic operations that can materially impact UNIFI's supply chains or other aspects of its foreign operations. The risks of international operations include trade barriers, duties, exchange controls, national and regional labor strikes, social and political unrest, general economic risks, compliance with a variety of foreign laws (including tax laws), the difficulty of enforcing agreements and collecting receivables through foreign legal systems, taxes on distributions or deemed distributions to UNIFI or any of its U.S. subsidiaries, maintenance of minimum capital requirements, and import and export controls. UNIFI's consolidated results of operations and business could be adversely affected as a result of a significant adverse development with respect to any of these risks.

Through its foreign operations, UNIFI is also exposed to foreign currency exchange rate fluctuations. Fluctuations in foreign currency exchange rates will impact period-to-period comparisons of UNIFI's reported results. Additionally, UNIFI operates in countries with foreign exchange controls. These controls may limit UNIFI's ability to transfer funds from its international operations and joint venture or otherwise to convert local currencies into USDs. These limitations could adversely affect UNIFI's ability to access cash from its foreign operations.

In addition, due to its foreign operations, a risk exists that UNIFI's employees, contractors or agents could engage in business practices prohibited by U.S. laws and regulations applicable to the Company, such as the Foreign Corrupt Practices Act, or the laws and regulations of other countries, such as the Brazilian Clean Companies Act. UNIFI maintains policies prohibiting these practices, but it remains subject to the risk that one or more of its employees, contractors or agents, specifically ones based in or from countries where such practices are customary, will engage in business practices in violation of these laws and regulations. Any such violations, even if in breach of UNIFI's policies, could adversely affect its business or financial performance.

UNIFI's future success will depend in part on its ability to protect and preserve its intellectual property rights, and UNIFI's inability to enforce these rights could cause it to lose sales, reduce any competitive advantage it has developed or otherwise harm its business.

UNIFI's future success depends in part on its ability to protect and preserve its rights in the trademarks and other intellectual property it owns or licenses, including its proprietary know-how, methods and processes. UNIFI relies on the trademark, copyright and trade secret laws of the United States and other countries, as well as nondisclosure and confidentiality agreements, to protect its intellectual property rights. However, UNIFI may be unable to prevent third parties, employees or contractors from using its intellectual property without authorization, breaching nondisclosure or confidentiality agreements, or independently developing technology that is similar to UNIFI's. The use of UNIFI's intellectual property by others without authorization may cause it to lose sales, reduce any competitive advantage UNIFI has developed or otherwise harm its business.

The success of UNIFI's business is tied to the strength and reputation of its brands. If the reputation of one or more of our brands erodes significantly, it could have a material impact on our financial results.

UNIFI has invested heavily in branding and marketing initiatives, and certain of our brands—particularly our REPREVE® brand—have widespread recognition. Our financial success is directly dependent on the success of our brands. The success of a brand can suffer if our marketing plans or product initiatives do not have the desired impact on a brand's image or its ability to attract consumers. Our financial results could also be negatively impacted if one of our brands suffers substantial harm to its reputation due to a product recall, product-related litigation, the sale of counterfeit products or other circumstances that tarnish the qualities and values represented by our brands. Part of our strategy also includes the license of our trademarks to brand partners, customers, independent contractors and other third parties. For example, we license our REPREVE® trademarks to brand partners who feature this trademark on their marketing materials as part of a co-branded environmental sustainability product narrative. Although we make concerted efforts to protect our brands through quality control mechanisms and contractual obligations imposed on our licensees, there is a risk that some licensees might not be in full compliance with those mechanisms and obligations. If the reputation of one or more of our brands is significantly eroded, it could adversely affect our sales, results of operations, cash flows and financial condition.

UNIFI has investments in less-than-100%-owned affiliates that it does not control, which subjects UNIFI to uncertainties about the operating performance and quality of financial reporting of these affiliates.

The most significant of these investments is UNIFI's 34% minority interest in PAL. While this investment is designed to provide industry diversity for UNIFI, UNIFI does not have majority voting control of PAL or the ability otherwise to control PAL's policies, management or affairs. The interests of persons who control PAL may differ from UNIFI's, and those persons may cause PAL to take actions that are not in UNIFI's best interest. Among other things, UNIFI's inability to control PAL may adversely affect its ability to receive distributions from PAL or to fully implement its business plan. The incurrence of debt or entry into other agreements by PAL may result in restrictions or prohibitions on PAL's ability to make distributions to UNIFI. Even where PAL is not restricted by contract or by law from making distributions, UNIFI may not be able to influence the timing or amount of such distributions. In addition, if the controlling investor in PAL fails to observe its commitments, PAL may not be able to operate according to its business plan, or UNIFI may need to increase its level of investment commitment. If any of these events were to occur, UNIFI's business, financial condition, results of operations or cash flows could be materially adversely affected.

UNIFI also relies on accurate financial reporting from PAL for preparation of UNIFI's quarterly and annual consolidated financial statements. Errors in the financial information reported by PAL could be material to UNIFI and may require us to restate past financial statements. Any such restatements could have a material adverse effect on UNIFI or the market price of our common stock.

PAL receives economic adjustment payments from the Commodity Credit Corporation under the Economic Adjustment Assistance to Users of Upland Cotton. The economic assistance received under this program must be used to acquire, construct, install, modernize, develop, convert or expand land, plant, buildings, equipment or machinery directly attributable to the purpose of manufacturing upland cotton into eligible cotton products in the United States. Should PAL no longer meet the criteria to receive economic assistance under the program, or should the program be discontinued, PAL's business and profitability could be significantly impacted, which would adversely affect UNIFI.

UNIFI requires cash to service its indebtedness and to fund capital expenditures and strategic initiatives, and its ability to generate sufficient cash for those purposes depends on many factors beyond its control.

UNIFI's principal sources of liquidity are cash flows generated from operations and borrowings under its credit facility. UNIFI's ability to make payments on its indebtedness and to fund planned capital expenditures and strategic initiatives will depend on its ability to generate future cash flows from operations. This ability, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond UNIFI's control. The business may not generate sufficient cash flows from operations, and future borrowings may not be available to UNIFI in amounts sufficient, to enable UNIFI to pay its indebtedness and to fund its other liquidity needs. Any such development would have a material adverse effect on UNIFI.

A decline in general economic or political conditions, and changes in consumer spending, could cause a decline in demand for textile products, including UNIFI's products.

UNIFI's products are used in the production of fabric primarily for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets. Demand for furniture and other durable goods is often affected significantly by economic conditions that have global or regional industry-wide consequences. Demand for a number of categories of apparel also tends to be tied to economic cycles and customer preferences that affect the textile industry in general. Demand for textile products, therefore, tends to vary with the business cycles of the United States and other economies, as well as changes in global trade flows, and economic and political conditions. Additionally, prolonged economic downturns that negatively impact UNIFI's results of operations and cash flows could result in future material impairment charges to write-down the carrying value of certain assets, including amortizable intangible assets and equity affiliates.

Changes in consumer spending, customer preferences, fashion trends and end uses for UNIFI's products could weaken UNIFI's competitive position and cause UNIFI's products to become less competitive, and its sales and profits may decrease as a result. Additionally, the end-consumer retail and apparel markets may continue to experience difficult conditions characterized by reduced retail traffic and growth in online sales channels, which may cause bankruptcies, store closures and other transformations for traditional retail enterprises, which could have an adverse effect on UNIFI's business and financial condition.

Historic trends indicate weakening performance in the nylon sector on a global basis. If the decline is significant in any one year or the cumulative decline over a number of years is significant, the impact could have a material adverse effect on UNIFI's business, financial condition, results of operations or cash flows.

Unfavorable changes in trade policies and/or violations of existing trade policies could weaken UNIFI's competitive position significantly and have a material adverse effect on its business.

A number of markets within the textile industry in which UNIFI sells its products, particularly the apparel, hosiery and home furnishings markets, are subject to intense foreign competition. Other markets within the textile industry in which UNIFI sells its products may in the future become subject to more intense foreign competition. There are currently a number of trade regulations and duties in place to protect the U.S. textile industry against competition from low-priced foreign producers, such as those in China and Vietnam. Political- and policy-driven influences are subjecting international trade regulations to significant change, the details of which have not yet been fully established and the consequences of which are not yet fully understood. Future changes in such trade regulations or duties may make the price of UNIFI's products less attractive than the goods of its competitors or the finished products of a competitor in the supply chain, which could have a material adverse effect on UNIFI's business, financial condition, results of operations or cash flows. Such changes in U.S. import duties might also result in increased indirect costs on items

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imported to support UNIFI's domestic operations and/or countervailing or responsive changes applicable to exports of our products outside the United States.

According to industry experts and trade associations, there has been a significant amount of illegal transshipments of apparel products into the United States and into certain other countries in the NAFTA and CAFTA-DR regions in which UNIFI competes. Illegal transshipment involves circumventing duties by falsely claiming that textiles and apparel are products of a particular country of origin (or include yarn of a particular country of origin) to avoid paying higher duties or to receive benefits from regional free trade agreements, such as NAFTA and CAFTA-DR. If illegal transshipments are not monitored, and if enforcement is not effective to limit them, these shipments could have a material adverse effect on UNIFI's business, financial condition, results of operations or cash flows.

In January 2017, the United States withdrew from the Trans-Pacific Partnership Agreement, an evolving trade agreement that included Vietnam, a major textile and apparel exporting country whose duty-free benefits under the agreement could have had an adverse effect on UNIFI's business in the long term. In May 2017, the Trump administration formally notified Congress of its intent to renegotiate NAFTA. These negotiations appear to have been put on hold due to recent changes in the Mexican government and the upcoming U.S. mid-term elections. The United States has a positive trade balance in the textile and apparel sector in NAFTA and UNIFI anticipates any modifications to the agreement in this sector will not significantly impact textile and apparel trade in the region.

In order to compete, we must attract, retain and motivate key employees, and our failure to do so could harm our business and our results of operations.

In order to compete effectively, we must attract and retain qualified employees. Our future operating results and success depend on keeping key personnel and management and also expanding our technical, sales and marketing, innovation and administrative support. The competition for qualified personnel is intense, particularly as it relates to hourly personnel in the domestic communities in which our manufacturing facilities are located. We cannot be sure that we will be able to attract and retain qualified personnel in the future, which could harm our business and results of operations.

Our business and operations could suffer in the event of cybersecurity breaches.

Attempts to gain unauthorized access to our information technology systems have become increasingly more sophisticated over time. These attempts, which might be related to industrial or other espionage, include covertly introducing malware to our computers and networks and impersonating authorized users, among others. We seek to detect and investigate all security incidents and to prevent their recurrence, but in some cases we might be unaware of an incident or its magnitude and effects. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any cybersecurity breach results in inappropriate disclosure of our customers' or brand partners' confidential information, we may incur liability as a result. In addition, the devotion of additional resources to the security of our information technology systems in the future could significantly increase the cost of doing business or otherwise adversely impact our financial results.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table contains information about the principal properties owned or leased by UNIFI as of June 24, 2018:

Location	Description
Polyester Segment	
Domestic	
Yadkinville, North Carolina	Five plants (1) and five warehouses (2)
Reidsville, North Carolina	Two plants (1)
Foreign	
Ciudad Arce, El Salvador	One plant (1) and one warehouse (3)
Nylon Segment	
Domestic	
Madison, North Carolina	One plant (1) and one warehouse (1)
Foreign	
Bogota, Colombia	One plant (1)
International Segment	
Foreign	
Alfenas, Brazil	One plant (1) and one warehouse (1)
Sao Paulo, Americana and Blumenau, Brazil	One corporate office (3) and two sales offices (3)
Suzhou, China	One sales office (3) and one warehouse (3)
Colombo, Sri Lanka	One sales office (3)

(1) Owned in fee simple.
(2) Three warehouses are owned in fee simple and two warehouses are leased.
(3) Leased.

In addition to the above properties, UNIFI owns property located at 7201 West Friendly Avenue in Greensboro, North Carolina, which includes a building that serves as UNIFI's corporate headquarters and administrative offices for all of its segments and a sales office. Such property consists of a tract of land containing approximately nine acres, and the building contains approximately 120,000 square feet.

As of June 24, 2018, UNIFI owned approximately 4.8 million square feet of manufacturing, warehouse and office space. Management believes all of UNIFI's operating properties are well-maintained and in good condition. In fiscal 2018, UNIFI's plants in the Polyester, Nylon and International Segments operated below capacity. Management does not perceive any capacity constraints in the foreseeable future.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following is a description of the names and ages of the executive officers of the Company, indicating all positions and offices with the Company held by each such person and each person’s principal occupations or employment during the past five years. Each executive officer of UNIFI is elected by the Board and holds office from the date of election until thereafter removed by the Board.

Kevin D. Hall – Age: 59 – Mr. Hall has served as Chief Executive Officer of the Company since May 2017 and as Chairman of the Board of Directors since October 2017. Prior to joining UNIFI, Mr. Hall served as Chief Executive Officer of NatPets LLC, a high-growth natural/organic premium pet company, from September 2016 to May 2017. From 2014 to 2015, Mr. Hall was President and Chief Executive Officer of Geneva Watch Group, a global fashion watch and accessories business. Between 2012 and 2014, Mr. Hall ran the KDH Advisory Group, a strategic marketing, branding and consulting firm, where he served as a consultant/advisor to a number of companies, including Pact at Revelry Brands, Vogue International and Inmar, Inc. From 2006 to 2011, Mr. Hall served as Chief Marketing Officer at Hanesbrands Inc. and then was promoted to President of the Outerwear strategic business unit of Hanesbrands, Inc., a business unit that included Champion Activewear, Just My Size and Hanes Casualwear. From 2001 to 2006, Mr. Hall was Senior Vice President of Marketing at Fidelity Investments Retirement Services Company. Prior to that, Mr. Hall held various brand marketing and general manager positions at The Procter & Gamble Company from 1985 to 2001.

Jeffrey C. Ackerman – Age: 55 – Mr. Ackerman has served as Executive Vice President & Chief Financial Officer of UNIFI since September 2017. Prior to joining UNIFI, Mr. Ackerman served as Executive Vice President & Chief Financial Officer of The Fresh Market, Inc., a specialty grocery retailer focused on creating an extraordinary food shopping experience for its customers, from June 2013 to September 2016. Prior to that, Mr. Ackerman served as Executive Vice President & Chief Financial Officer of Sealy Corporation, one of the largest bedding manufacturers in the world, from 2006 to 2013. From 1997 to 2006, Mr. Ackerman held various finance positions, including Vice President, Finance, with Dade Behring Inc., a medical diagnostics company. From 1989 to 1997, he held a variety of finance roles at the Frito-Lay branded snack foods division of PepsiCo, Inc.

Thomas H. Caudle, Jr. – Age: 66 – Mr. Caudle has served as President & Chief Operating Officer of UNIFI since August 2017. Previously, he was President of the Company from April 2016 to August 2017, Vice President of Manufacturing of the Company from October 2006 to April 2016 and Vice President of Global Operations of the Company from April 2003 to October 2006. Mr. Caudle joined UNIFI in 1982 and, since that time, has served in a variety of other leadership roles, including Senior Vice President in charge of manufacturing for the Company and Vice President of Manufacturing Services.

Richard E. Gerstein – Age: 53 – Mr. Gerstein has served as Executive Vice President, Global Branded Premium Value-Added Products and Chief Marketing Officer of the Company since August 2017. Before joining UNIFI, Mr. Gerstein served from January 2015 to August 2017 as founder and a partner of two consulting firms, TNG Consulting and The Brand CHarGe, in San Francisco, California. With TNG Consulting, Mr. Gerstein worked with early-stage technology and consumer products companies on strategy, marketing and investment. With The Brand CHarGe, Mr. Gerstein assisted private equity firms with new business and proprietary customer assessments used in due diligence and growth plans. From May 2014 to May 2015, Mr. Gerstein served as Chief Customer Officer for Motista, LLC, a strategy and marketing firm focused on emotional data and analytics, where he developed new client relationships and new products. Previously, Mr. Gerstein co-founded and served (from 2011 to 2014) as Chief Executive Officer of ZigMail.com, an e-mail concierge service focused on organizing and simplifying personal e-mail inboxes, and served in various executive roles with HP Inc. (formerly known as Hewlett-Packard Company) (from 2010 to 2011), Sears Holdings Corporation (from 2007 to 2010), Alberto-Culver Company (from 2005 to 2007) and The Procter & Gamble Company (from 1987 to 2005).

John D. Vegas – Age: 47 – Mr. Vegas has been Executive Vice President, Global Chief Human Resources Officer of the Company since August 2017. Before joining UNIFI, Mr. Vegas served, from August 2015 to August 2017, as Vice President, Human Resources and Chief Human Resources Officer of G&K Services, Inc., a service-focused provider of branded uniform and facility services programs, which was acquired by Cintas Corporation in March 2017. From 2003 to 2015, Mr. Vegas was with Ecolab Inc., the global leader in water, hygiene and energy technologies and services that protect people and vital resources, where he held several management positions, including Vice President and General Manager, Institutional Latin America; Regional Vice President of Sales; Vice President of Human Resources—Institutional Sector; and Director of HR—Industrial Sector. Prior to that, Mr. Vegas worked for Food Lion, LLC, from 2001 to 2003, as Director of Organizational Development and for Hannaford Bros. Co., from 1993 to 2001, in a variety of management roles.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

UNIFI's common stock is listed for trading on the New York Stock Exchange (the "NYSE") under the symbol "UFI." The following table sets forth the closing, high and low sales prices of the common stock for UNIFI's two most recent fiscal years.

	Close	High	Low
Fiscal 2018:			
Fourth quarter ended June 24, 2018	$31.52	$38.65	$28.97
Third quarter ended March 25, 2018	36.10	37.49	33.00
Second quarter ended December 24, 2017	35.21	39.21	33.15
First quarter ended September 24, 2017	33.33	33.92	27.98
Fiscal 2017:			
Fourth quarter ended June 25, 2017	$28.92	$30.74	$26.38
Third quarter ended March 26, 2017	26.99	33.78	26.03
Second quarter ended December 25, 2016	32.85	34.70	26.55
First quarter ended September 25, 2016	29.20	29.69	24.82

As of August 16, 2018, there were 130 record holders of UNIFI's common stock. A significant number of the outstanding shares of common stock that are beneficially owned by individuals and entities are registered in the name of Cede & Co. Cede & Co. is a nominee of The Depository Trust Company, a securities depository for banks and brokerage firms. UNIFI estimates that there are approximately 5,000 beneficial owners of its common stock.

No dividends were paid in the past two fiscal years, and UNIFI does not intend to pay cash dividends in the foreseeable future. UNIFI's current debt obligations contain certain restricted payment and restricted investment provisions, including a restriction on the payment of dividends and share repurchases under certain circumstances. Information regarding UNIFI's debt obligations is provided in Note 12, "Long-Term Debt," to the accompanying consolidated financial statements.

Purchases of Equity Securities

On April 23, 2014, UNIFI announced that the Board had approved the SRP under which UNIFI is authorized to acquire up to $50,000 of its common stock. The SRP has no stated expiration or termination date, and there is no time limit or specific time frame otherwise for repurchases. Under the SRP, purchases may be completed in accordance with SEC regulations 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, and are subject to applicable limitations and restrictions as set forth in the credit agreement governing UNIFI's debt obligations. UNIFI may discontinue repurchases at any time that management determines additional purchases are not beneficial or advisable.

UNIFI did not purchase any of its common stock during fiscal 2017 and 2018. As of June 24, 2018, UNIFI had repurchased a total of 806 shares, at an average price of $27.79 (for a total of $22,409, inclusive of commission costs) pursuant to the SRP, and $27,603 remained available for repurchases.

PERFORMANCE GRAPH - SHAREHOLDER RETURN ON COMMON STOCK

The below graphic comparison assumes the investment of $100 in each of UNIFI common stock, the S&P SmallCap 600 Index (a benchmark index containing inclusion characteristics closely associated with UNIFI) and the NYSE Composite Index (a broad equity market index), all at June 28, 2013. The resulting cumulative total return assumes that dividends, if any, were reinvested. Past performance is not indicative of future performance.

	June 28, 2013	June 27, 2014	June 26, 2015	June 24, 2016	June 23, 2017	June 22, 2018
Unifi, Inc.	$ 100.00	$ 132.56	$ 164.20	$ 127.19	$ 139.91	$ 152.49
S&P SmallCap 600	100.00	124.07	135.07	127.44	156.94	191.78
NYSE Composite	100.00	122.40	126.38	119.62	141.39	156.06

Item 6. Selected Financial Data

The following table presents selected historical consolidated financial data. The data should be read in conjunction with UNIFI's historical consolidated financial statements for each of the fiscal years presented, as well as "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report.

	For the Fiscal Year Ended				
	June 24, 2018	June 25, 2017	June 26, 2016	June 28, 2015	June 29, 2014
Number of fiscal weeks	52	52	52	52	52
Operations Data:					
Net sales	$678,912	$ 647,270	$ 643,637	$ 687,121	$ 687,902
Gross profit	86,428	94,164	93,632	90,705	83,262
Selling, general and administrative expenses	56,077	50,829	47,502	49,672	46,203
Operating income	28,799	43,768	42,198	38,486	31,483
Interest expense	4,935	3,578	3,528	4,025	4,329
Equity in earnings of unconsolidated affiliates [1]	(5,787)	(4,230)	(8,963)	(19,475)	(19,063)
Income from continuing operations before income taxes	30,211	43,275	48,243	53,812	47,881
(Benefit) provision for income taxes [2]	(1,491)	10,898	15,073	13,346	20,161
Income from continuing operations, net of tax	31,702	32,377	33,170	40,466	27,720
Net income attributable to Unifi, Inc. [3]	31,702	32,875	34,415	42,151	28,823
Per common share:					
Net income attributable to Unifi, Inc.					
Basic	$1.73	$ 1.81	$ 1.93	$ 2.32	$ 1.52
Diluted	$1.70	$ 1.78	$ 1.87	$ 2.24	$ 1.47
Cash Flow Data:					
Net cash provided by operating activities	$37,335	$ 46,062	$ 55,975	$ 38,903	$ 56,357
Depreciation and amortization expenses	22,585	20,368	17,528	18,043	17,896
Capital expenditures	25,029	33,190	52,337	25,966	19,091
Distributions received from unconsolidated affiliates	12,236	2,322	4,732	3,718	13,214
Cash paid for share repurchases	—	—	6,211	10,360	36,551
Cash dividends declared per common share	$—	$ —	$ —	$ —	$ —

	June 24, 2018	June 25, 2017	June 26, 2016	June 28, 2015	June 29, 2014
Balance Sheet Data:					
Cash and cash equivalents	$ 44,890	$ 35,425	$ 16,646	$ 10,013	$ 15,907
Property, plant and equipment, net	205,516	203,388	185,101	136,222	123,802
Total assets	601,807	571,503	525,442	474,761	466,588
Total debt [4]	130,549	128,442	121,591	102,499	97,394
Total shareholders' equity	389,781	360,806	326,945	299,093	286,738

(1) Equity in earnings of unconsolidated affiliates for fiscal 2015 includes two bargain purchase gains recognized by PAL for a combined benefit to UNIFI of $4,696, before taxes.

(2) Provision for income taxes for fiscal 2018 includes, among other items, benefits from the reversal of (i) an uncertain tax position for $3,380 relating to certain intercompany foreign income applicable to fiscal 2015 and (ii) a valuation allowance on certain historical NOLs for $3,807, in addition to certain tax impacts resulting from federal tax reform legislation signed into law in December 2017.

Provision for income taxes for fiscal 2017 includes, among other items, a $1,500 benefit for the recognition of research and development credits relating to previously filed tax returns that were amended in fiscal 2017.

Provision for income taxes for fiscal 2015 includes, among other items, the reversal of $7,639 for the deferred tax liability related to UNIFI's indefinite reinvestment assertion, a $3,008 impact related to certain intercompany foreign currency transactions that originated in prior fiscal years and were settled in fiscal 2015, the release of $3,009 from the valuation allowance primarily in connection with an unconsolidated affiliate, renewable energy credits of $1,036 and net expense recognized for uncertain tax positions of $2,879.

During fiscal 2014, UNIFI increased the valuation allowance for certain deferred tax assets, generating additional tax expense of $1,925.

(3) Net income attributable to Unifi, Inc. ("Net Income"):

- for fiscal 2017 includes a loss on the divestiture of a non-core business of $1,662, after tax;
- for fiscal 2016 includes key employee transition costs of $1,493, after tax; and
- for fiscal 2015 includes a loss on the extinguishment of debt of $676, after tax.

(4) Total debt reflects principal outstanding less unamortized debt issuance costs.

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations
The following is management’s discussion and analysis of certain significant factors that have affected UNIFI’s operations, along with material changes in financial condition, during the periods included in the accompanying consolidated financial statements. Management’s discussion and analysis should be read in conjunction with the remainder of this Annual Report, with the understanding that “forward-looking statements” may be present. A reference to a “note” refers to the accompanying notes to consolidated financial statements.

Overview

UNIFI manufactures and sells polyester-based and nylon-based products primarily to other yarn manufacturers and knitters and weavers (UNIFI’s direct customers) that produce yarn and/or fabric for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets (UNIFI’s indirect customers). We refer to these indirect customers as “brand partners.” Polyester yarns include 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 Flake and Chip. Nylon yarns include virgin or recycled textured, solution dyed and spandex covered yarns.

UNIFI maintains one of the textile industry’s most comprehensive yarn product offerings that include specialized yarns, PVA yarns and commodity yarns, with principal geographic markets in the Americas and Asia.

UNIFI has direct 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 PAL, a significant unconsolidated affiliate that produces cotton and synthetic yarns for sale to the global textile industry and apparel market. We believe the investment in PAL provides strategic diversification for our overall business in response to global textile trends.

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

UNIFI reported net income of $31,702, or $1.70 per diluted share, for fiscal 2018. These results primarily reflect the benefits of (i) growth in sales of PVA products, especially in the International Segment and (ii) an effective tax rate lower than recent prior years due primarily to the reversal of both a significant uncertain tax position and a valuation allowance on certain historical NOLs. The benefits to net income were partially offset by (a) an increasing raw materials cost environment coupled with a challenging domestic landscape in which achieving corresponding selling price adjustments was difficult against cost-competitive imports and (b) increased SG&A expenses for talent acquisition, marketing and commercial expansion.

In both fiscal 2017 and 2018, UNIFI faced periods of fluctuating and/or increasing virgin and recycled polyester raw material costs, depressing the Polyester Segment’s gross margins. Additionally, the Polyester and Nylon Segments both experienced a difficult domestic environment, challenged by weak retail selling seasons, highly competitive imports and, through the first half of fiscal 2018, cautious ordering patterns from brands and retailers. However, the International Segment exhibited strong performance and growth due to the global success of UNIFI’s PVA portfolio.

Significant Developments and Trends

UNIFI's operations in fiscal 2018 were focused on enhancing the global supply chain, growing the market for its PVA products and using cash flow from operations to fund select capital projects and strategic growth opportunities while also building out our commercial and management team through talent recruitment. This focus led to the continuing increase in UNIFI's PVA sales as a percentage of its overall sales, with net sales from PVA products representing approximately 45% of consolidated net sales for fiscal 2018. This increase continues a growth trend in PVA sales, which have risen more than 10% annually for the past several fiscal years. UNIFI's strategy of enriching its product mix through a focus on PVA products helps to insulate it from the pressures of low-priced commodity yarn imports and to establish UNIFI as an innovation leader in its core markets. UNIFI's innovative and sustainable products achieved growth in overseas markets, continuing to meet the demands of premier brands and retailers worldwide.

UNIFI's flagship REPREVE® brand continued as our fastest growing PVA solution during fiscal 2018. The increasing success and awareness of the REPREVE® brand continues to provide new opportunities for growth, allowing for expansion into new end uses and markets for REPREVE®, as well as continued growth of the brand with current customers. Both brands and consumers are demanding more sustainable solutions that provide better performance characteristics, and we believe REPREVE® is positioned to benefit from this trend.

However, despite the relative growth in PVA sales and overall sales, UNIFI experienced profitability challenges in fiscal 2018. The primary challenges related to (i) persistently rising raw material costs and an inherent lag in implementing responsive price increases, (ii) suppressed yarn demand in the Polyester and Nylon Segments and (iii) a less-profitable sales mix.

Fiscal 2017 marked the final year of a three-year $135,000 capital investment plan. Beginning with fiscal 2015, UNIFI invested approximately $35,000 in capital projects, adding machinery to support expansion of its draw-textured and air-jet textured businesses, launching its third production line in the REPREVE® Recycling Center and installing a 1-megawatt capacity solar farm. In fiscal 2016, UNIFI invested approximately $60,000 in capital projects, including initial construction of a bottle processing facility, commencing another REPREVE® Recycling Center expansion and enhancing automation systems and existing machinery to accommodate an increasingly complex product mix. UNIFI invested approximately $40,000 in capital projects in fiscal 2017, completing construction of its bottle processing facility, nearing completion of the fourth production line in the REPREVE® Recycling Center, and completing construction of assets for production of specialized bi-component fibers, along with additional enhancements to existing assets for customized and small-lot solutions.

In fiscal 2018, we invested approximately $25,000 in capital projects, which included (i) completing the fourth production line in the REPREVE® Recycling Center, (ii) making further improvements in production capabilities and technology enhancements in the Americas and (iii) annual maintenance capital expenditures.

To appropriately leverage the significant investments made in machinery and equipment in recent years, UNIFI expects to make additional investments in certain growth initiatives, including technology, innovation and sustainability; high-quality strategic partnerships; and supply chain expansion and optimization. These initiatives complement UNIFI's core competencies and are expected to strengthen our relationships with like-minded customers who value a premier supply chain and state-of-the-art equipment that offers technology-driven solutions backed by innovation and sustainability. As a result, these initiatives are expected to increase net sales, gross margins and operating income while also increasing SG&A expenses.

Raw material components represent a significant portion of UNIFI's manufactured products. The prices for the principal raw materials used by UNIFI continually fluctuate, and it is difficult, and often impossible, to predict trends or upcoming developments. During fiscal 2018 and 2017, UNIFI operated in a predominantly increasing raw material cost environment. UNIFI believes those costs were primarily a result of volatility in the crude oil markets. During fiscal 2016, UNIFI operated in a predominantly declining virgin polyester raw material cost environment. UNIFI believes that costs during much of fiscal 2016 were impacted by lower crude oil values, a lack of major unplanned raw material capacity outages and soft global demand for polyester raw materials. The continuing volatility in global crude oil prices is likely to impact UNIFI's polyester and nylon raw material costs. While it is not possible to predict the timing or amount of the impact or whether the recent fluctuations in crude oil prices will stabilize or continue, UNIFI monitors these dynamic factors closely. In addition, UNIFI attempts to pass on to its customers rises in raw material costs but at times it cannot and, when it can, there typically is a time lag that adversely affects UNIFI during one or more periods. Certain customers are subject to an index-based pricing model in which UNIFI's prices are adjusted based on the change in the cost of raw materials in the prior quarter. Pricing adjustments for other customers must be negotiated independently. In ordinary market conditions in which raw material price increases have stabilized and sales volumes are consistent with traditional levels, UNIFI has historically been successful in implementing price adjustments within one or two fiscal quarters of the raw material price increase for its index priced customers and within two fiscal quarters of the raw material price increase for its non-index priced customers.

UNIFI is also impacted by significant fluctuations in the value of the BRL and the Chinese Renminbi ("RMB"), the local currencies for our operations in Brazil and China, respectively. Appreciation of the BRL and RMB improves our net sales and gross profit metrics when the results of our subsidiaries are translated into USDs at comparatively favorable rates. However, such strengthening may cause adverse impacts to the value of USDs held in these foreign jurisdictions. UNIFI expects continued volatility in the value of the BRL and the RMB to impact our key performance metrics, although the magnitude of the impact is dependent upon the significance of the volatility, and it is not possible to predict the timing or amount of the impact.

In fiscal 2018, the BRL weakened versus the USD, while in fiscal 2017, the BRL strengthened versus the USD. In fiscal 2016, UNIFI was negatively impacted by relative weakening of the BRL.

In fiscal 2018, 2017 and 2016, fluctuations in the value of the RMB occurred and were most impactful to certain fiscal quarters in which exchange rates moved dramatically, but were not material to each fiscal year as a whole.

Results of Operations

Fiscal 2018, 2017 and 2016 each consisted of 52 weeks. The following table presents a summary of Net Income:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net sales	$678,912	$647,270	$643,637
Cost of sales	592,484	553,106	550,005
Gross profit	86,428	94,164	93,632
Selling, general and administrative expenses	56,077	50,829	47,502
(Benefit) provision for bad debts	(38)	(123)	1,684
Other operating expense (income), net	1,590	(310)	2,248
Operating income	28,799	43,768	42,198
Interest expense, net	4,375	3,061	2,918
Loss on sale of business	—	1,662	—
Equity in earnings of unconsolidated affiliates	(5,787)	(4,230)	(8,963)
Income before income taxes	30,211	43,275	48,243
(Benefit) provision for income taxes	(1,491)	10,898	15,073
Net income including non-controlling interest	31,702	32,377	33,170
Less: net loss attributable to non-controlling interest	—	(498)	(1,245)
Net income attributable to Unifi, Inc.	$31,702	$32,875	$34,415

See Note 25, "Business Segment Information," to the accompanying consolidated financial statements for reconciliations and detail regarding UNIFI's reportable segments, discussion and analysis of which follows below.

Key Performance Indicators and Non-GAAP Financial Measures

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

- sales volume and revenue for UNIFI and for each reportable segment;
- gross profit and gross margin for UNIFI and for each reportable segment;
- Net Income and diluted earnings per share ("EPS");
- Segment Profit (Loss), which equals segment gross profit plus segment depreciation expense;
- unit conversion margin, which represents unit net sales price less unit raw material costs, for UNIFI and for each reportable segment;
- working capital, which represents current assets less current liabilities;
- Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), which represents Net Income before net interest expense, income tax expense and depreciation and amortization expense;
- Adjusted EBITDA, which represents EBITDA adjusted to exclude equity in earnings of PAL, key employee transition costs, loss on sale of business and certain other adjustments necessary to understand and compare the underlying results of UNIFI;
- Adjusted Net Income, which represents Net Income calculated under GAAP, adjusted to exclude certain amounts which management believes do not reflect the ongoing operations and performance of UNIFI and/or which are necessary to understand and compare the underlying results of UNIFI, such as key employee transition costs, loss on sale of business, and the approximate after-tax impact of certain income or expense items (as well as specific impacts

to the provision for income taxes);

- Adjusted EPS, which represents Adjusted Net Income divided by UNIFI's diluted weighted average common shares outstanding; and
- Adjusted Working Capital (receivables plus inventory, less accounts payable and accrued expenses).

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

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

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

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

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

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

See "—Non-GAAP Reconciliations" below for reconciliations of non-GAAP metrics to the most directly comparable GAAP metric.

Non-GAAP Reconciliations

EBITDA and Adjusted EBITDA

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

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net income attributable to Unifi, Inc.	$31,702	$32,875	$34,415
Interest expense, net	4,375	3,030	2,884
(Benefit) provision for income taxes	(1,491)	10,898	15,073
Depreciation and amortization expense	22,218	19,851	16,893
EBITDA	56,804	66,654	69,265

Equity in earnings of PAL	(4,533)	(2,723)	(6,074)
EBITDA excluding PAL	52,271	63,931	63,191
Loss on sale of business	—	1,662	—
Key employee transition costs	—	—	2,166
Adjusted EBITDA	$52,271	$65,593	$65,357

Amounts presented in the reconciliation above may not be consistent with amounts included in UNIFI's consolidated financial statements, and such discrepancies are insignificant and integral to the reconciliation.

Adjusted Net Income and Adjusted EPS

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

	Fiscal 2018			
	Pre-tax Income	Tax Impact	Net Income	Diluted EPS
GAAP results	$30,211	$ 1,491	$ 31,702	$ 1.70
Reversal of specific tax valuation allowance [(1)]	—	(3,807)	(3,807)	(0.20)
Reversal of specific uncertain tax position [(2)]	—	(3,380)	(3,380)	(0.18)
Adjusted results	$30,211	$ (5,696)	$ 24,515	$ 1.32
Diluted weighted average common shares outstanding				18,637

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	Fiscal 2017 Pre-tax Income	Tax Impact	Net Income	Diluted EPS
GAAP results	$43,275	$ (10,898)	$ 32,875	$ 1.78
Loss on sale of business (3)	1,662	—	1,662	0.09
Adjusted results	$44,937	$ (10,898)	$ 34,537	$ 1.87
Diluted weighted average common shares outstanding				18,443

	Fiscal 2016 Pre-tax Income	Tax Impact	Net Income	Diluted EPS
GAAP results	$48,243	$(15,073)	$34,415	$1.87
Key employee transition costs (4)	2,330	(673)	1,493	0.08
Adjusted results	$50,573	$(15,746)	$35,908	$1.95
Diluted weighted average common shares outstanding				18,415

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

(2) For fiscal 2018, UNIFI reversed a $3,380 uncertain tax position relating to certain foreign exchange income applicable to fiscal 2015.

(3) For fiscal 2017, the Company incurred a loss on the sale of its investment in Renewables of $1,662. There was no tax impact for this transaction as the loss is non-deductible.

(4) For fiscal 2016, the Company incurred key employee transition costs of $2,330, before tax, for transactions in the United States. The Company estimates the tax benefit of these costs was $673, using a 35% tax rate, with no significant deferred tax components. Including transactions for Renewables, the amounts reflected here consider impacts to the valuation allowances and non-controlling interest.

Review of Results of Operations for Fiscal 2018, 2017 and 2016

Consolidated Overview

The components of Net Income, each component as a percentage of net sales and the percentage increase or decrease over the prior fiscal year amounts are presented in the table below, followed by a discussion and analysis of the significant components of Net Income. Fiscal 2018, 2017 and 2016 were each comprised of 52 weeks.

	Fiscal 2018	% Change	Fiscal 2017	% Change	Fiscal 2016
Net sales	$678,912	4.9	$647,270	0.6	$643,637
Cost of sales	592,484	7.1	553,106	0.6	550,005
Gross profit	86,428	(8.2)	94,164	0.6	93,632
Selling, general and administrative expenses	56,077	10.3	50,829	7.0	47,502
(Benefit) provision for bad debts	(38)	(69.1)	(123)	(107.3)	1,684
Other operating expense (income), net	1,590	(612.9)	(310)	(113.8)	2,248
Operating income	28,799	(34.2)	43,768	3.7	42,198
Interest expense, net	4,375	42.9	3,061	4.9	2,918
Loss on sale of business	—	(100.0)	1,662	100.0	—
Earnings from unconsolidated affiliates	(5,787)	36.8	(4,230)	(52.8)	(8,963)
Income before income taxes	30,211	(30.2)	43,275	(10.3)	48,243
(Benefit) provision for income taxes	(1,491)	(113.7)	10,898	(27.7)	15,073
Net income including non-controlling interest	31,702	(2.1)	32,377	(2.4)	33,170
Less: net loss attributable to non-controlling interest	—	(100.0)	(498)	(60.0)	(1,245)
Net income attributable to Unifi, Inc.	$31,702	(3.6)	$32,875	(4.5)	$34,415

Net Sales

Fiscal 2018 vs Fiscal 2017

Consolidated net sales for fiscal 2018 increased by $31,642, or 4.9%, as compared to fiscal 2017.

Consolidated sales volumes increased 10.7%, attributable to continued growth in sales of Flake and recycled polyester Chip in the Polyester Segment and staple fiber and other PVA products in the International Segment. Sales continue to expand in the International Segment as our PVA portfolio resonates with numerous customers. The increase in sales volumes was partially offset by soft yarn sales in the Polyester and Nylon Segments. We believe the softness in the domestic environment and competition from imports continues to be a challenge for the textile supply chain. Our Nylon Segment results also reflect the current global trend of declines in demand for nylon socks, ladies' hosiery and intimate apparel.

Consolidated average sales prices decreased 5.6%, attributable to disproportionate growth of lower-priced Flake, recycled polyester Chip and staple fiber among the Polyester and International Segments, as well as a decline in higher-priced nylon products. PVA products at the end of fiscal 2018 comprised 45% of consolidated net sales, up from 40% at the end of fiscal 2017. Even with the relative growth in the proportion of PVA sales as a percentage of overall sales, our customers can choose between various solutions, some of which carry higher margins than others. Accordingly, growth in PVA sales does not necessarily translate into higher margins or increased profitability on a consolidated basis.

Fiscal 2017 vs. Fiscal 2016

Consolidated net sales for fiscal 2017 increased by $3,633, or 0.6%, as compared to fiscal 2016.

Consolidated sales volumes increased 11.3%, attributable to continued growth in sales of PVA products in the International Segment and sales of recycled polyester Chip and Flake in the Polyester Segment. In Brazil, despite a volatile economic and political environment, we capitalized on expansion of the synthetic yarn market coupled with market share gain due to the shutdown of a competitor in early calendar 2016. In Asia, the business has grown as brands and retail partners continue to utilize our global model, providing differentiation and innovation of our PVA products to support customers' global supply chains. The increase in International Segment sales volumes was partially offset by softness in the retail markets covered by NAFTA and CAFTA-DR, which adversely impacted the Polyester and Nylon Segments. As store closures and other business transformations plagued the retail industry, domestic apparel brands and retailers continued a cautious ordering level throughout fiscal 2017, which led to sales volume declines for our domestic operations compared to the prior period.

Consolidated average sales prices decreased 10.6% from fiscal 2016 to fiscal 2017, attributable to (i) a mix impact within the Polyester Segment due to a higher proportion of lower-priced product sales, (ii) a mix impact from relative volume weakness for nylon products that typically carry a higher selling price and (iii) an increase in product sales in the International Segment (where the products carry a lower average selling price when compared to domestic programs). The decrease in consolidated sales pricing was partially offset by increased sales of PVA products and a benefit from net favorable foreign currency translation, when comparing fiscal 2017 to fiscal 2016, of approximately $9,800, primarily associated with the comparative increase in value of the BRL. PVA products at the end of fiscal 2017 comprised 40% of consolidated net sales, up from 35% at the end of fiscal 2016.

Gross Profit

Fiscal 2018 vs. Fiscal 2017

Gross profit for fiscal 2018 decreased by $7,736, or 8.2%, as compared to fiscal 2017. For the International Segment, gross profit increased due to sales growth; however, margins were lower due to a less favorable sales mix and pressure from higher raw material costs. For the Polyester Segment, gross profit decreased primarily due to higher raw material costs coupled with a lag time in implementing corresponding selling price increases, lower yarn sales, incremental depreciation and pressure from ramping-up recycling operations as we incurred higher-than-expected costs in our bottle processing facility. For the Nylon Segment, gross profit decreased due in part to a less favorable sales mix and lower sales volumes.

Fiscal 2017 vs. Fiscal 2016

Gross profit for fiscal 2017 increased by $532, or 0.6%, as compared to fiscal 2016, primarily due to (i) the increase in PVA product sales in the International Segment, (ii) an improvement in per-unit manufacturing costs for our subsidiary in Brazil due to increased volumes and (iii) net favorable foreign currency translation of approximately $1,800. These benefits were partially offset as gross profit for the Polyester and Nylon Segments decreased due to (a) lower sales volumes in the Nylon Segment, (b) start-up costs (primarily depreciation) associated with the new bottle processing facility and (c) a lag in implementing selling price adjustments for customers in connection with periodic increases in virgin polyester raw material costs.

Selling, General and Administrative Expenses

The changes in SG&A expenses are as follows:

SG&A expenses for fiscal 2016	$47,502
Net increase for external service providers	2,386
Increase in supplemental retirement plan expenses	640
Increase due to foreign currency translation	465
Increase in incentive compensation expenses	410
Decrease in sales, franchise and property taxes	(533)
Other net decreases	(41)
SG&A expenses for fiscal 2017	$50,829
SG&A expenses for fiscal 2017	$50,829
Increase in domestic salaries and fringe benefits	2,701
Increase in domestic recruiting and incentive compensation	2,578
Incremental international commercial investments	1,368
Increase in domestic marketing expenses	859
Other net increases	1,219
Net decrease for external service providers	(3,477)
SG&A expenses for fiscal 2018	$56,077

Fiscal 2018 vs. Fiscal 2017

Total SG&A expenses grew throughout fiscal 2018 to support investments in talent, international growth, and development of greater commercial capabilities. The increase compared to fiscal 2017 was primarily a result of (i) an increase in domestic salaries and fringe benefits, as well as an increase in domestic recruiting and incentive compensation due to recent talent acquisition, (ii) growth in the International Segment's commercial efforts, (iii) investments in marketing capabilities and activities to promote UNIFI's brands, and (iv) other net increases for sales commissions and general corporate expenses, partially offset by a net decrease in fees paid to external service providers, primarily for consulting.

In the fourth quarter of fiscal 2018, total SG&A expenses reached a run-rate expected to continue through fiscal 2019. Therefore, UNIFI expects fiscal 2019 SG&A expenses to exceed those of fiscal 2018 as UNIFI incurs the full-year effect of the investments made in fiscal 2018.

Fiscal 2017 vs. Fiscal 2016

Total SG&A expenses were higher for fiscal 2017 compared to fiscal 2016, primarily as a result of (i) a net increase in fees paid to external service providers, including audit, legal, tax, consulting, marketing and branding services, many of which related to strategic planning, talent acquisition and commercial expansion, (ii) an increase in supplemental retirement plan expenses driven by comparatively stronger performance of the equity index benchmark, (iii) an increase in foreign currency translation primarily due to the strengthening of the BRL versus the USD and (iv) an increase in incentive compensation expenses due to favorable performance against established targets, partially offset by a decrease in non-income related taxes and other net decreases.

(Benefit) Provision for Bad Debts

Fiscal 2018 vs. Fiscal 2017

There was no material bad debt activity in fiscal 2018 or fiscal 2017.

Fiscal 2017 vs. Fiscal 2016

(Benefit) provision for bad debts changed favorably from a provision of $1,684 for fiscal 2016 to a benefit of $123 for fiscal 2017. The benefit to fiscal 2017 reflects a net decrease in the reserve against specifically identified customer balances in the Polyester and International Segments.

Other Operating Expense (Income), Net

Fiscal 2018 vs. Fiscal 2017

Other operating expense (income), net changed unfavorably from $310 of income for fiscal 2017 to $1,590 of expense for fiscal 2018. Other operating expense (income), net for fiscal 2018 primarily includes unfavorable foreign currency exchange impacts, while the total for fiscal 2017 primarily includes favorable foreign currency exchange impacts.

Fiscal 2017 vs. Fiscal 2016

Other operating expense (income), net changed favorably from $2,248 of expense for fiscal 2016 to $310 of income for fiscal 2017. Other operating expense (income), net for fiscal 2017 primarily includes favorable foreign currency exchange impacts, while the total for fiscal 2016 primarily includes key employee transition costs.

Interest Expense, Net

Interest expense, net reflected the following components:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Interest and fees on the ABL Facility	$3,926	$3,032	$2,903
Other interest	832	1,021	885
Subtotal of interest on debt obligations	4,758	4,053	3,788
Amortization of debt financing fees	367	390	407
Mark-to-market adjustment for interest rate swap	—	(260)	(20)
Reclassification adjustment for interest rate swap	—	70	77
Interest capitalized to property, plant and equipment, net	(190)	(675)	(724)
Subtotal of other components of interest expense	177	(475)	(260)
Total interest expense	4,935	3,578	3,528
Interest income	(560)	(517)	(610)
Interest expense, net	$4,375	$3,061	$2,918

Fiscal 2018 vs. Fiscal 2017

Interest on debt obligations increased from fiscal 2017 to fiscal 2018 primarily due to (i) a higher weighted average interest rate resulting from fixing the variable portion of the interest rate on $75,000 of debt principal, beginning in May 2017 and (ii) a general increase in market interest rates on the remaining portion of our variable rate debt.

The change in other components of interest expense from fiscal 2017 to fiscal 2018 was primarily attributable to a fiscal 2017 favorable mark-to-market adjustment for the historical interest rate swap that terminated in May 2017 and less interest capitalized to project costs.

Fiscal 2017 vs. Fiscal 2016

Interest on debt obligations increased from fiscal 2016 to fiscal 2017 in connection with an increase in the weighted average interest rate and an increase in capital lease obligations.

The change in other components of interest expense from fiscal 2016 to fiscal 2017 was primarily attributable to a more favorable change in the mark-to-market adjustment for the historical interest rate swap.

Interest income in each period includes earnings recognized on cash equivalents held globally.

Loss on Sale of Business

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

Earnings from Unconsolidated Affiliates

The components of earnings from unconsolidated affiliates are as follows:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Earnings from PAL	$(4,533)	$(2,723)	$(6,074)
Earnings from nylon joint ventures	(1,254)	(1,507)	(2,889)
Total equity in earnings of unconsolidated affiliates	$(5,787)	$(4,230)	$(8,963)
As a percentage of consolidated income before income taxes	19.2 %	9.8 %	18.6 %

Fiscal 2018 vs. Fiscal 2017

UNIFI's 34% share of PAL's earnings increased from $2,723 in fiscal 2017 to $4,533 in fiscal 2018. The increase was primarily attributable to improved sales and operating margins and lower depreciation expense. The earnings from the nylon joint ventures experienced a decrease from the prior period primarily due to softness in the nylon market, consistent with the results of the Nylon Segment, as well as higher raw material costs.

Fiscal 2017 vs. Fiscal 2016

UNIFI's 34% share of PAL's earnings decreased from $6,074 in fiscal 2016 to $2,723 in fiscal 2017. The decrease was primarily attributable to lower volumes and operating margins, mostly as a result of a challenging domestic cotton market. The earnings from the nylon joint ventures experienced a decrease from the prior period primarily due to higher raw material costs and softness in the nylon markets.

(Benefit) Provision for Income Taxes

The change in consolidated income taxes is as follows:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Income before income taxes	$30,211	$43,275	$48,243
(Benefit) provision for income taxes	(1,491)	10,898	15,073
Effective tax rate	(4.9)%	25.2 %	31.2 %

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

UNIFI has recorded all known and estimable impacts of H.R. 1 that are effective for fiscal 2018. Future adjustments to provisional numbers will be recorded as discrete adjustments to income tax expense in the period in which those adjustments become estimable and/or are finalized. UNIFI continues to review the anticipated impacts of the global intangible low-taxed income (“GILTI”), foreign derived intangible income (“FDII”) deduction, and base erosion anti-abuse tax (“BEAT”), which are not effective until fiscal 2019. UNIFI has not recorded any impacts associated with either GILTI, FDII or BEAT, but these provisions are expected to adversely impact the fiscal 2019 effective tax rate.

Fiscal 2018 vs. Fiscal 2017

The effective tax rate for fiscal 2018 benefited from, among other things, (i) the release of uncertain tax positions due to settlement with tax authorities, (ii) the deferred tax benefit resulting from the revaluation of UNIFI’s domestic deferred tax balances for the lower U.S. statutory rate (including valuation allowances on domestic deferred tax assets), (iii) the release of a valuation allowance on certain NOLs outside the U.S. consolidated group, and (iv) a reduction in the valuation allowance related to foreign NOLs utilized in fiscal 2018. These benefits were partially offset by (a) the one-time deemed mandatory repatriation of foreign earnings, net of foreign tax credits, (b) withholding taxes on repatriation of foreign earnings and (c) nondeductible compensation.

The effective tax rate for fiscal 2017 benefited from, among other things, (i) a lower overall effective tax rate for UNIFI’s foreign earnings (reflecting free-trade zone sales in El Salvador and lower statutory tax rates in both Brazil and China), (ii) increased research and development credits, (iii) a decrease in the valuation allowance reflecting the recognition of lower taxable income versus book income for UNIFI’s investment in PAL (for which UNIFI maintains a full valuation allowance) and (iv) a reduction in the valuation allowance related to foreign NOLs utilized in 2017. These benefits were partially offset by (a) a reduction in the domestic production activities deduction due to the carryback of certain losses, (b) an increase in uncertain tax positions and (c) withholding taxes on repatriation of foreign earnings.

The favorable change in the effective tax rate from fiscal 2017 to fiscal 2018 was primarily attributable to (i) the release of uncertain tax positions due to settlement with tax authorities and (ii) the release of a valuation allowance on certain NOLs outside the U.S. consolidated group.

Fiscal 2017 vs. Fiscal 2016

The effective tax rate for fiscal 2017 benefited from, among other things, (i) a lower overall effective tax rate for UNIFI's foreign earnings (reflecting free-trade zone sales in El Salvador and lower statutory tax rates in both Brazil and China), (ii) increased research and development credits, (iii) a decrease in the valuation allowance reflecting the recognition of lower taxable income versus book income for UNIFI's investment in PAL (for which UNIFI maintains a full valuation allowance) and (iv) a reduction in the valuation allowance related to foreign NOLs utilized in 2017. These benefits were partially offset by (a) a reduction in the domestic production activities deduction due to the carryback of certain losses, (b) an increase in uncertain tax positions and (c) withholding taxes on repatriation of foreign earnings.

The effective tax rate for fiscal 2016 benefited from, among other things, (i) a lower overall effective tax rate for UNIFI's foreign earnings (reflecting free-trade zone sales in El Salvador and lower statutory tax rates in both Brazil and China), (ii) a decrease in the valuation allowance reflecting the recognition of lower taxable income versus book income for UNIFI's investment in PAL (for which UNIFI maintains a full valuation allowance) and (iii) a reduction in the valuation allowance related to foreign tax credits utilized in 2016. These benefits were partially offset by (a) utilization of foreign tax credits, (b) an increase in the valuation allowance for NOLs, including Renewables, for which no tax benefit could be recognized, (c) state and local taxes net of the assumed federal benefit and (d) an increase in uncertain tax positions.

The favorable change in the effective tax rate from fiscal 2016 to fiscal 2017 was primarily attributable to both a greater mix of foreign earnings and increased research and development credits in fiscal 2017.

Net Income

Fiscal 2018 vs. Fiscal 2017

Net Income for fiscal 2018 was $31,702, or $1.70 per diluted share, compared to $32,875, or $1.78 per diluted share, for fiscal 2017. The decrease was primarily attributable to (i) higher operating expenses reducing gross profit, (ii) an increase in SG&A

expenses, (iii) higher interest expense and (iv) unfavorable foreign currency exchange impacts, partially offset by (a) a lower effective tax rate, (b) higher earnings from PAL and (c) a loss on sale of business in fiscal 2017.

Fiscal 2017 vs. Fiscal 2016

Net Income for fiscal 2017 was $32,875, or $1.78 per diluted share, compared to $34,415, or $1.87 per diluted share, for fiscal 2016. The decrease was primarily attributable to (i) lower earnings from equity affiliates and (ii) an increase in SG&A expenses, partially offset by (a) the recognition of a benefit for bad debts, (b) a lower effective tax rate and (c) favorable foreign currency exchange impacts.

Segment Overview

Following is a discussion and analysis of the revenue and profitability performance of UNIFI's reportable segments for fiscal 2018, 2017 and 2016.

Polyester Segment

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

	Fiscal 2018		% Change	Fiscal 2017		% Change	Fiscal 2016	
Net sales	$364,169		2.4	$355,740		(7.2)	$383,167	
Cost of sales	333,078		5.5	315,655		(5.4)	333,638	
Gross profit	31,091		(22.4)	40,085		(19.1)	49,529	
Depreciation expense	15,893		14.2	13,921		24.4	11,188	
Segment Profit	$46,984		(13.0)	$54,006		(11.1)	$60,717	
Gross margin	8.5	%		11.3	%		12.9	%
Segment margin	12.9	%		15.2	%		15.8	%
Segment net sales as a percentage								
of consolidated amount	53.6	%		55.0	%		59.5	%
Segment Profit as a percentage								
of consolidated amount	44.1	%		48.2	%		56.0	%

The changes in net sales for the Polyester Segment are as follows:

Net sales for fiscal 2016	$383,167

Decrease in average selling price and change in sales mix	(33,651)
Increase in sales volumes	6,224
Net sales for fiscal 2017	$355,740
Net sales for fiscal 2017	$355,740
Increase in sales volumes	15,828
Decrease in average selling price and change in sales mix	(7,399)
Net sales for fiscal 2018	$364,169

The increase in net sales for the Polyester Segment from fiscal 2017 to fiscal 2018 was primarily attributable to higher sales of Flake, POY and recycled polyester Chip. However, these changes also drove a decline in the Polyester Segment average selling price, while lower sales volumes of higher-priced textured, dyed and beamed yarns also negatively impacted the sales mix.

The decrease in net sales for the Polyester Segment from fiscal 2016 to fiscal 2017 was attributable to lower sales prices primarily as a result of an unfavorable change in sales mix due to lower sales volumes of higher-priced textured, dyed and beamed yarns and higher sales volumes of lower-priced Flake, recycled polyester Chip and POY.

The changes in Segment Profit for the Polyester Segment are as follows:

Segment Profit for fiscal 2016	$60,717
Net decrease in underlying margins	(7,697)
Increase in sales volumes	986
Segment Profit for fiscal 2017	$54,006
Segment Profit for fiscal 2017	$54,006
Net decrease in underlying margins	(9,425)
Increase in sales volumes	2,403
Segment Profit for fiscal 2018	$46,984

The decrease in Segment Profit for the Polyester Segment from fiscal 2017 to fiscal 2018 was primarily attributable to raw material cost pressures that were not effectively offset by timely corresponding selling price increases, along with the unfavorable sales mix shift towards lower-margin products discussed above in the net sales analysis. In addition, we incurred higher-than-expected costs in our bottle processing operation during fiscal 2018. UNIFI does attempt to pass on to its customers rises in raw material costs but at times it cannot and, when it can, there typically is a time lag that adversely affects UNIFI and its margins during one or more periods. Certain customers are subject to an index-based pricing model in which UNIFI’s prices are adjusted based on the change in the cost of raw materials in the prior quarter. Pricing adjustments for other customers must be negotiated independently. In ordinary market conditions in which raw material price increases have stabilized and sales volumes are consistent with traditional levels, UNIFI has historically been successful in implementing price adjustments within one to two fiscal quarters of the raw material price increase for its index priced customers and within two fiscal quarters of the raw material price increase for its non-index priced customers.

The decrease in Segment Profit for the Polyester Segment from fiscal 2016 to fiscal 2017 was attributable to (i) the impact of an unfavorable change in sales mix, as described in the net sales analysis above and (ii) the impact of periodic increases in virgin polyester raw material costs with an inherent delay in selling price adjustments, despite an increase in sales volumes.

Nylon Segment

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

	Fiscal 2018	% Change	Fiscal 2017	% Change	Fiscal 2016
Net sales	$102,639	(8.9)	$112,704	(14.4)	$131,715
Cost of sales	92,155	(8.4)	100,633	(11.7)	113,906