UNIFI INC
Form 10-Q
February 05, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 28, 2014

**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**<br>*(State or other jurisdiction of incorporation or organization)* | **11-2165495**<br>*(I.R.S. Employer Identification No.)* |
| **7201 West Friendly Avenue**<br>**Greensboro, NC**<br>*(Address of principal executive offices)* | **27419-9109**<br>*(Zip Code)* |

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer [ ] | Accelerated filer [X] | Non-accelerated filer [ ] | Smaller reporting company [ ] |

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the issuer's common stock, par value $.10 per share, as of February 2, 2015 was 18,185,633.

**UNIFI, INC.**

**FORM 10-Q FOR THE QUARTER ENDED DECEMBER 28, 2014**

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**Part I. FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

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

| | December 28, 2014 | June 29, 2014 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 17,897 | $ 15,907 |
| Receivables, net | 76,319 | 93,925 |
| Inventories | 115,703 | 113,370 |
| Income taxes receivable | 4,434 | 179 |
| Deferred income taxes | 1,928 | 1,794 |
| Other current assets | 5,496 | 6,052 |
| Total current assets | 221,777 | 231,227 |
| | | |
| Property, plant and equipment, net | 124,328 | 123,802 |
| Deferred income taxes | 3,314 | 2,329 |
| Intangible assets, net | 6,372 | 7,394 |
| Investments in unconsolidated affiliates | 105,748 | 99,229 |
| Other non-current assets | 4,952 | 5,086 |
| Total assets | $ 466,491 | $ 469,067 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Accounts payable | $ 41,853 | $ 51,364 |
| Accrued expenses | 11,639 | 18,589 |
| Income taxes payable | 200 | 3,134 |
| Current portion of long-term debt | 13,353 | 7,215 |
| Total current liabilities | 67,045 | 80,302 |
| Long-term debt | 97,905 | 92,273 |
| Other long-term liabilities | 7,639 | 7,549 |
| Deferred income taxes | 5,809 | 2,205 |
| Total liabilities | 178,398 | 182,329 |
| Commitments and contingencies | | |
| | | |
| Common stock, $0.10 par value (500,000,000 shares authorized, 18,185,633 and 18,313,959 shares outstanding) | 1,819 | 1,831 |

| | | |
|---|---|---|
| Capital in excess of par value | 43,483 | 42,130 |
| Retained earnings | 258,367 | 245,673 |
| Accumulated other comprehensive loss | (17,321) | (4,619) |
| Total Unifi, Inc. shareholders’ equity | 286,348 | 285,015 |
| Non-controlling interest | 1,745 | 1,723 |
| Total shareholders’ equity | 288,093 | 286,738 |
| Total liabilities and shareholders’ equity | $ 466,491 | $ 469,067 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 |
| Net sales | $163,149 | $ 160,617 | $337,331 | $ 329,286 |
| Cost of sales | 139,866 | 142,120 | 293,093 | 290,804 |
| Gross profit | 23,283 | 18,497 | 44,238 | 38,482 |
| Selling, general and administrative expenses | 12,584 | 11,491 | 23,870 | 21,605 |
| Provision for bad debts | 63 | 87 | 654 | 49 |
| Other operating expense, net | 702 | 1,145 | 2,163 | 2,769 |
| Operating income | 9,934 | 5,774 | 17,551 | 14,059 |
| Interest income | (309) | (142) | (626) | (1,356) |
| Interest expense | 1,209 | 903 | 2,028 | 2,155 |
| Equity in earnings of unconsolidated affiliates | (3,281) | (5,122) | (7,002) | (11,245) |
| Income before income taxes | 12,315 | 10,135 | 23,151 | 24,505 |
| Provision for income taxes | 3,193 | 3,924 | 7,354 | 9,675 |
| Net income including non-controlling interest | 9,122 | 6,211 | 15,797 | 14,830 |
| Less: net (loss) attributable to non-controlling interest | (296) | (232) | (698) | (483) |
| Net income attributable to Unifi, Inc. | $9,418 | $ 6,443 | $16,495 | $ 15,313 |
| | | | | |
| Net income attributable to Unifi, Inc. per common share: | | | | |
| Basic | $0.52 | $ 0.34 | $0.90 | $ 0.80 |
| Diluted | $0.50 | $ 0.32 | $0.88 | $ 0.76 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

**(amounts in thousands)**

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 |
| Net income including non-controlling interest | $ 9,122 | $ 6,211 | $ 15,797 | $ 14,830 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | (5,483 ) | (3,140 ) | (12,524 ) | (3,462 ) |
| Foreign currency translation adjustments for an unconsolidated affiliate | (371 ) | — | (371 ) | — |
| Reclassification adjustments on cash flow hedge | 89 | 145 | 193 | 300 |
| Other comprehensive loss, net | (5,765 ) | (2,995 ) | (12,702 ) | (3,162 ) |
| Comprehensive income including non-controlling interest | 3,357 | 3,216 | 3,095 | 11,668 |
| Less: comprehensive (loss) attributable to non-controlling interest | (296 ) | (232 ) | (698 ) | (483 ) |
| Comprehensive income attributable to Unifi, Inc. | $ 3,653 | $ 3,448 | $ 3,793 | $ 12,151 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)**

**For the Six Months Ended December 28, 2014**

**(amounts in thousands)**

| | Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Total Unifi, Inc. Shareholders' Equity | Non-controlling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|
| Balance at June 29, 2014 | 18,314 | $ 1,831 | $ 42,130 | $ 245,673 | $ (4,619) | $ 285,015 | $ 1,723 | $ 286,738 |
| Options exercised | 5 | — | 36 | — | — | 36 | — | 36 |
| Stock-based compensation | — | — | 1,564 | — | — | 1,564 | — | 1,564 |
| Conversion of restricted stock units | 16 | 2 | (2) | — | — | — | — | — |
| Common stock repurchased and retired under publicly announced program | (149) | (14) | (345) | (3,801) | — | (4,160) | — | (4,160) |
| Excess tax benefit on stock-based compensation plans | — | — | 100 | — | — | 100 | — | 100 |
| Other comprehensive loss, net | — | — | — | — | (12,702) | (12,702) | — | (12,702) |
| Contributions from non-controlling interest | — | — | — | — | — | — | 720 | 720 |
| Net income (loss) | — | — | — | 16,495 | — | 16,495 | (698) | 15,797 |
| Balance at December 28, 2014 | 18,186 | $ 1,819 | $ 43,483 | $ 258,367 | $ (17,321) | $ 286,348 | $ 1,745 | $ 288,093 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

**(amounts in thousands)**

| | For The Six Months Ended | |
|---|---|---|
| | December 28, 2014 | December 29, 2013 |
| Cash and cash equivalents at beginning of year | $ 15,907 | $ 8,755 |
| *Operating activities:* | | |
| Net income including non-controlling interest | 15,797 | 14,830 |
| Adjustments to reconcile net income including non-controlling interest to net cash provided by operating activities: | | |
| Equity in earnings of unconsolidated affiliates | (7,002) | (11,245) |
| Distributions received from unconsolidated affiliates | — | 3,059 |
| Depreciation and amortization expense | 8,986 | 8,625 |
| Non-cash compensation expense, net | 1,897 | 1,611 |
| Excess tax benefit on stock-based compensation plans | (100) | (3,536) |
| Deferred income taxes | 1,620 | 25 |
| Other | 48 | 1,751 |
| Changes in assets and liabilities: | | |
| Receivables, net | 14,239 | 19,829 |
| Inventories | (7,005) | (1,609) |
| Other current assets and income taxes receivable | (4,330) | 684 |
| Accounts payable and accruals | (11,741) | (17,645) |
| Income taxes payable | (2,897) | 3,137 |
| Other non-current assets | 53 | 4,714 |
| Net cash provided by operating activities | 9,565 | 24,230 |
| *Investing activities:* | | |
| Capital expenditures | (13,442) | (9,431) |
| Proceeds from sale of assets | 101 | 268 |
| Proceeds from other investments | 54 | 392 |
| Other | (145) | (60) |
| Net cash used in investing activities | (13,432) | (8,831) |
| *Financing activities:* | | |
| Proceeds from revolving credit facility | 79,400 | 72,700 |
| Payments on revolving credit facility | (86,400) | (74,800) |
| Proceeds from term loan | 22,000 | 7,200 |
| Payment on term loan | (2,813) | — |
| Common stock repurchased and retired under publicly announced programs | (4,160) | (18,687) |
| Common stock tendered to the Company for withholding tax obligations and retired | — | (1,654) |
| Proceeds from stock option exercises | 36 | 2,833 |
| Excess tax benefit on stock-based compensation plans | 100 | 3,536 |
| Contributions from non-controlling interest | 720 | 346 |
| Other | (959) | (31) |

| | | |
|---|---|---|
| Net cash provided by (used in) financing activities | 7,924 | (8,557) |
| Effect of exchange rate changes on cash and cash equivalents | (2,067) | (75) |
| Net increase in cash and cash equivalents | 1,990 | 6,767 |
| Cash and cash equivalents at end of period | $ 17,897 | $ 15,522 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**1. Background**

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

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

**2. Basis of Presentation; Condensed Notes**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. As contemplated by the instructions of the Securities and Exchange Commission to Form 10-Q, the following notes have been condensed and, therefore, do not contain all disclosures required in connection with annual financial statements. Reference should be made to the Company's year-end audited consolidated financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended June 29, 2014 (the "2014 Form 10-K").

The financial information included in this report has been prepared by the Company, without audit. In the opinion of management, all adjustments considered necessary for a fair statement of the results for interim periods have been included. Nevertheless, the results shown for interim periods are not necessarily indicative of results to be expected for the full year. The June 29, 2014 condensed consolidated balance sheet data was derived from the audited financial statements, but does not include all disclosures required by GAAP. The preparation of financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the amounts reported and certain financial statement disclosures. Actual results may vary from these estimates.

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

*Fiscal Year*

The Company’s current fiscal quarter ended on December 28, 2014, the last Sunday in December. The Company’s Brazilian, Colombian and Chinese subsidiaries’ fiscal quarter ended on December 31, 2014 and there were no significant transactions or events that occurred between the Company’s fiscal quarter end and its subsidiaries’ fiscal quarter end. The three months ended December 28, 2014 and December 29, 2013 each consisted of thirteen fiscal weeks. The six months ended December 28, 2014 and December 29, 2013 each consisted of twenty-six fiscal weeks.

*Reclassifications*

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

**3. Recent Accounting Pronouncements**

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

**4. Acquisition**

*Acquisition of Draw Winding Business from Dillon Yarn Corporation*

On December 2, 2013, the Company acquired certain draw winding assets and the associated business from American Drawtech Company, Inc. (“ADC”), a division of Dillon Yarn Corporation (“Dillon”), pursuant to the exercise of an option granted to the Company under the terms of a commissioning agreement with Dillon, for $2,934, which included accounts payable and an accrued contingent liability.  The assets acquired include Dillon’s draw winding inventory and production machinery and equipment.  This acquisition increased the Company’s polyester production capacity and has allowed the Company to expand its presence in targeted industrial, belting, hose and thread markets by increasing its product offerings to include mid-tenacity flat yarns.  Mr. Mitchel Weinberger, a member of the Company’s Board of Directors (the “Board”), is also Dillon’s President and Chief Operating Officer and an Executive Vice President and a director of ADC.

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

The acquisition has been accounted for as a business combination, which requires assets acquired and liabilities assumed to be recognized at their fair values as of the acquisition date. The Company concluded that the acquisition did not represent a material business combination. The fair values of the assets acquired, liabilities assumed and consideration transferred are as follows:

| | |
|---|---|
| **Assets:** | |
| Inventory | $434 |
| Machinery and equipment | 835 |
| Customer list | 1,615 |
| Non-compete agreement | 50 |
| Total assets | $2,934 |
| | |
| **Liabilities:** | |
| Accounts payable | $434 |
| Contingent consideration | 2,500 |
| Total liabilities | $2,934 |

The contingent consideration liability represents the present value of the expected future payments due to Dillon over the five-year period following the acquisition date. The payments due are equal to one-half of the operating profit of the draw winding business, as calculated using an agreed-upon definition. The assumptions used in estimating the contingent consideration liability were based on inputs not observable in the market and represent Level 3 fair value measurements. These estimates are reviewed quarterly and any adjustment is recorded through operating income.

See “Note 9. Intangible Assets, Net” for further discussion of the customer list and non-compete agreement.

See “Note 17. Fair Value of Financial Instruments and Non-Financial Assets and Liabilities” for further discussion of the recurring measurement of the contingent consideration.

**5. Receivables, Net**

Receivables, net consists of the following:

| | December 28, 2014 | June 29, 2014 |
|---|---|---|
| Customer receivables | $ 78,106 | $ 95,270 |
| Allowance for uncollectible accounts | (1,465 ) | (1,035 ) |
| Reserves for yarn quality claims | (640 ) | (618 ) |
| Net customer receivables | 76,001 | 93,617 |
| Related party receivables | 25 | 17 |
| Other receivables | 293 | 291 |
| Total receivables, net | $ 76,319 | $ 93,925 |

Other receivables consist primarily of receivables for duty drawback, healthcare claim reimbursement, interest and refunds from vendors.

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

| | Allowance for Uncollectible Accounts | Reserves for Yarn Quality Claims |
|---|---|---|
| Balance at June 29, 2014 | $ (1,035 ) | $ (618 ) |
| Charged to costs and expenses | (654 ) | (631 ) |
| Charged to other accounts | 144 | 22 |
| Deductions | 80 | 587 |
| Balance at December 28, 2014 | $ (1,465 ) | $ (640 ) |

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

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

## 6. Inventories

Inventories consists of the following:

| | December 28, 2014 | June 29, 2014 |
|---|---|---|
| Raw materials | $ 44,505 | $ 42,244 |
| Supplies | 5,135 | 5,345 |
| Work in process | 6,067 | 7,404 |
| Finished goods | 61,071 | 59,716 |
| Gross inventories | 116,778 | 114,709 |
| Inventory reserves | (1,075) | (1,339) |
| Total inventories | $ 115,703 | $ 113,370 |

The cost for the majority of the Company's inventories is determined using the first-in, first-out method. Certain foreign inventories and limited categories of supplies of $30,510 and $32,822 as of December 28, 2014 and June 29, 2014, respectively, were valued under the average cost method.

## 7. Other Current Assets

Other current assets consists of the following:

| | December 28, 2014 | June 29, 2014 |
|---|---|---|

| | | |
|---|---|---|
| Vendor deposits | $ 1,810 | $ 2,369 |
| Value added taxes receivable | 1,296 | 1,197 |
| Prepaid expenses | 1,928 | 1,876 |
| Other | 462 | 610 |
| Total other current assets | $ 5,496 | $ 6,052 |

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

Other consists primarily of premiums on a split dollar life insurance policy that represents the value of the Company's right of return on premiums paid for a retiree-owned insurance contract with a maturity date of January 1, 2015 and amounts held by the Company's Colombian subsidiary in an investment fund under liquidation.

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

Property, plant and equipment, net consists of the following:

| | December 28, 2014 | June 29, 2014 |
|---|---|---|
| Land | $ 2,801 | $2,957 |
| Land improvements | 11,676 | 11,676 |
| Buildings and improvements | 145,228 | 145,458 |
| Assets under capital leases | 4,587 | 4,587 |
| Machinery and equipment | 532,639 | 532,650 |
| Computers, software and office equipment | 16,846 | 17,404 |
| Transportation equipment | 4,818 | 4,901 |
| Construction in progress | 5,932 | 6,896 |
| Gross property, plant and equipment | 724,527 | 726,529 |
| Less: accumulated depreciation | (599,663) | (602,436) |
| Less: accumulated amortization – capital leases | (536) | (291) |
| Total property, plant and equipment, net | $ 124,328 | $123,802 |

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 |
| Depreciation expense | $ 3,792 | $ 3,599 | $ 7,620 | $ 7,386 |
| Internal software development costs amortization | 37 | 35 | 71 | 69 |
| Repair and maintenance expenses | 4,290 | 4,286 | 8,948 | 8,516 |
| Capitalized interest | 6 | 41 | 53 | 83 |

**9. Intangible Assets, Net**

Intangible assets, net consists of the following:

| | December 28, 2014 | June 29, 2014 |
|---|---|---|
| Customer lists | $ 23,615 | $ 23,615 |
| Non-compete agreements | 4,293 | 4,293 |
| Licenses | 265 | 265 |
| Trademarks | 353 | 339 |
| Patents | 163 | 162 |
| Total intangible assets, gross | 28,689 | 28,674 |
| | | |
| Accumulated amortization - customer lists | (18,635) | (17,838) |
| Accumulated amortization - non-compete agreements | (3,375) | (3,214) |
| Accumulated amortization - licenses | (102) | (86) |
| Accumulated amortization - trademarks | (199) | (141) |
| Accumulated amortization - patents | (6) | (1) |
| Total accumulated amortization | (22,317) | (21,280) |
| Total intangible assets, net | $ 6,372 | $ 7,394 |

In fiscal year 2007, the Company purchased the texturing operations of Dillon, which are included in the Company’s Polyester Segment. The valuation of the customer list acquired was determined by estimating the discounted net earnings attributable to the customer relationships that were purchased after considering items such as possible customer attrition. Based on the length and trend of the projected cash flows, an estimated useful life of thirteen years was determined. The customer list is amortized in a manner which reflects the expected economic benefit that will be received over its thirteen-year life. The non-compete agreement is amortized using the straight-line method over the period currently covered by the agreement. The amortization expense is included within the Polyester Segment's depreciation and amortization expense.

On December 2, 2013, the Company acquired certain draw winding assets and the associated business from Dillon, as described in "Note 4. Acquisition." A customer list and a non-compete agreement were recorded in connection with the business combination, utilizing similar valuation methods as described above for the fiscal year 2007 transaction. The customer list is amortized over a nine-year estimated useful life based on the expected economic benefit. The non-compete agreement is amortized using the straight-line method over the five-year term of the agreement. The amortization expense is included within the Polyester Segment's depreciation and amortization expense.

During fiscal year 2012, the Company acquired a controlling interest (and continues to hold such 60% membership interest) in Repreve Renewables, LLC ("Renewables"), a development stage enterprise formed to cultivate, grow and sell dedicated energy crops, including biomass intended for use as a feedstock in the production of energy and potential applications for poultry bedding. The non-compete agreement for Renewables is amortized using the straight-line method over the five-year term of the agreement. The licenses for Renewables are amortized using the straight-line method over their estimated useful lives of four to eight years.

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

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

Amortization expense for intangible assets consists of the following:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 |
| Customer lists | $ 398 | $ 370 | $ 797 | $ 740 |
| Non-compete agreements | 81 | 79 | 161 | 157 |
| Licenses | 8 | 7 | 16 | 15 |
| Trademarks | 30 | 22 | 58 | 46 |
| Patents | 2 | — | 5 | — |
| Total amortization expense | $ 519 | $ 478 | $ 1,037 | $ 958 |

**10. Other Non-Current Assets**

Other non-current assets consists of the following:

| | December 28, 2014 | June 29, 2014 |
|---|---|---|
| Biomass foundation and feedstock | $ 2,688 | $ 2,683 |
| Debt financing fees | 2,019 | 2,093 |
| Long-term deposits | 242 | 295 |
| Other | 3 | 15 |
| Total other non-current assets | $ 4,952 | $ 5,086 |

Biomass foundation and feedstock are currently being developed and propagated by Renewables for potential markets in the poultry bedding and bioenergy industries. Long-term deposits consist primarily of vendor deposits.

**11. Accrued Expenses**

Accrued expenses consists of the following:

| | December 28, 2014 | June 29, 2014 |
|---|---|---|
| Payroll and fringe benefits | $ 6,234 | $ 12,406 |
| Utilities | 1,855 | 2,876 |
| Property taxes | 1,528 | 821 |
| Contingent consideration | 525 | 537 |
| Other | 1,497 | 1,949 |
| Total accrued expenses | $ 11,639 | $ 18,589 |

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

**12. Long-Term Debt**

*Debt Obligations*

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

| | Scheduled | Weighted Average Interest Rate as of | Principal Amounts as of | |
|---|---|---|---|---|
| | Maturity Date | December 28, 2014 | December 28, 2014 | June 29, 2014 |
| ABL Revolver | March 2019 | 2.2% | $ 19,000 | $ 26,000 |
| ABL Term Loan | March 2019 | 3.2% | 87,187 | 68,000 |
| Term loan from unconsolidated affiliate | August 2015 | 3.0% | 1,250 | 1,250 |
| Capital lease obligations | (1) | (2) | 3,821 | 4,238 |
| Total debt | | | 111,258 | 99,488 |
| Current portion of long-term debt | | | (13,353 ) | (7,215 ) |
| Total long-term debt | | | $ 97,905 | $ 92,273 |

(1) Scheduled maturity dates for capital lease obligations range from January 2017 to November 2027.
(2) Interest rates for capital lease obligations range from 2.3% to 4.6%.

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**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

On May 24, 2012, the Company entered into a credit agreement (the "Credit Agreement") to establish a $150,000 senior secured credit facility ("ABL Facility") with Wells Fargo Bank, N.A. and Bank of America, N.A. The ABL Facility has been amended several times, such that it has a maturity date of March 28, 2019 and consists of a $100,000 revolving credit facility ("ABL Revolver") and a $90,000 term loan ("ABL Term Loan").

*ABL Facility*

The ABL Facility is secured by a first-priority security interest in substantially all owned property and assets (together with proceeds and products) of Unifi, Inc., Unifi Manufacturing, Inc. and certain subsidiary guarantors (the "Loan Parties"). It is also secured by a first-priority security interest in all (or 65% in the case of certain first tier controlled foreign corporations, as required by the lenders) of the stock of (or other ownership interests in) each of the Loan Parties (other than the Company) and certain subsidiaries of the Loan Parties, together with all proceeds and products thereof. The ABL Facility is further secured by a first-priority lien on the Company's limited liability company membership interest in Parkdale America, LLC ("PAL").

The Credit Agreement, as amended, includes representations and warranties made by the Loan Parties, affirmative and negative covenants and events of default that are usual and customary for financings of this type. If excess availability under the ABL Revolver falls below the defined Trigger Level, a financial covenant requiring the Loan Parties to maintain a fixed charge coverage ratio on a monthly basis of at least 1.05 to 1.0 becomes effective. The Trigger Level as of December 28, 2014 was $23,398. In addition, the ABL Facility contains restrictions on certain payments and investments, including restrictions on the payment of dividends and share repurchases, unless excess availability is greater than the Trigger Level for the thirty-day period prior to the making of such a distribution (as calculated on a pro forma basis as if all such payments and any revolving loans made in connection therewith were made on the first day of such period) and the fixed charge coverage ratio is at least 1.0 to 1.0 (as calculated on a pro forma basis as if all such payments made pursuant to the most recent compliance certificate date were made on the last day of the applicable twelve-month period). Subject to certain provisions, the ABL Term Loan may be prepaid at par, in whole or in part, at any time before the maturity date, at the Company's discretion.

The Company's ability to borrow under the ABL Revolver is limited to a borrowing base equal to specified percentages of eligible accounts receivable and inventory and is subject to certain conditions and limitations. ABL Revolver borrowings bear interest at the London Interbank Offer Rate ("LIBOR") plus an applicable margin of 1.75% to 2.25%, or the Base Rate plus an applicable margin of 0.75% to 1.25%, with interest currently being paid on a monthly basis. The Base Rate means the greater of (i) the prime lending rate as publicly announced from time to time by Wells Fargo, (ii) the Federal Funds Rate plus 0.5%, and (iii) LIBOR plus 1.0%. There is also a monthly unused line fee under the ABL Revolver of 0.25% to 0.375%.

*Fifth Amendment*

On August 25, 2014, the Company entered into a Fifth Amendment to Credit Agreement (“Fifth Amendment”). The Fifth Amendment, among other things: (i) increased the ABL Term Loan by $22,000 to $90,000; (ii) increased the fixed quarterly payments on the ABL Term Loan from $2,125 to $2,812; (iii) modified the calculation of the fixed charge coverage ratio to exclude certain capital expenditures and permitted acquisitions, at the election of the Company, through June 30, 2015, subject to a maximum exclusion of $40,000 for any consecutive twelve-month period and other limitations; (iv) increased the ABL Term Loan interest rate from LIBOR plus an applicable margin of 2.25%, or the Base Rate plus an applicable margin of 1.25%, to LIBOR plus an applicable margin of 2.50%, or the Base Rate plus an applicable margin of 1.50%; (v) modified the date on which the eligibility of certain collateral is calculated as a date between July 19, 2015 and December 31, 2015, subject to satisfaction of certain additional conditions, such that the ABL Term Loan amount can be increased again up to $90,000; (vi) related to the making of restricted payments (consisting of dividends and share repurchases), in addition to existing requirements, added a requirement to have a fixed charge coverage ratio of at least 1.0 to 1.0 during the same period, calculated on a pro forma basis as if all such restricted payments made pursuant to the most recent compliance certificate date were made on the last day of the applicable twelve-fiscal-month period; and (vii) removed the requirement to hedge interest rate exposure on funded indebtedness. Debt financing fees of $184 were recorded during the six months ended December 28, 2014 related to the amendment.

As of December 28, 2014, the Company was in compliance with all financial covenants; the excess availability under the ABL Revolver was $60,919; the fixed charge coverage ratio was 4.5 to 1.0; and the Company had $525 of standby letters of credit, none of which have been drawn upon.

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

*Term Loan from Unconsolidated Affiliate*

On August 30, 2012, a foreign subsidiary of the Company entered into an unsecured loan agreement under which it borrowed $1,250 from the Company's unconsolidated affiliate, U.N.F. Industries Ltd. The loan does not amortize and bears interest at 3%, payable semi-annually. The entire principal balance is due August 30, 2015, the maturity date.

*Scheduled Debt Maturities*

The following table presents the scheduled maturities of the Company's outstanding debt obligations for the remainder of fiscal year 2015 and the fiscal years thereafter:

| | **Scheduled Maturities on a Fiscal Year Basis** | | | | | |
|---|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** | **2019** | **Thereafter** |
| ABL Revolver | $— | $— | $— | $— | $19,000 | $ — |
| ABL Term Loan | 5,625 | 11,250 | 11,250 | 11,250 | 47,812 | — |
| Capital lease obligations | 423 | 866 | 808 | 558 | 366 | 800 |
| Term loan from unconsolidated affiliate | — | 1,250 | — | — | — | — |
| Total | $6,048 | $13,366 | $12,058 | $11,808 | $67,178 | $ 800 |

*Debt Financing Fees*

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

| | |
|---|---|
| Balance at June 29, 2014 | $2,093 |
| Amounts recorded related to debt modification | 184 |
| Amortization charged to interest expense | (258 ) |
| Balance at December 28, 2014 | $2,019 |

*Interest Expense*

Interest expense consists of the following:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 |
| Interest on ABL Facility | $ 925 | $ 812 | $ 1,785 | $ 1,665 |
| Other | 43 | 30 | 91 | 69 |
| Subtotal | 968 | 842 | 1,876 | 1,734 |
| Reclassification adjustment for cash flow hedge | 89 | 145 | 193 | 300 |
| Amortization of debt financing fees | 146 | 105 | 258 | 212 |
| Mark-to-market adjustment for interest rate swap | 12 | (148) | (246) | (8) |
| Interest capitalized to property, plant and equipment, net | (6) | (41) | (53) | (83) |
| Subtotal | 241 | 61 | 152 | 421 |
| Total interest expense | $ 1,209 | $ 903 | $ 2,028 | $ 2,155 |

**13. Other Long-Term Liabilities**

Other long-term liabilities consists of the following:

| | December 28, 2014 | June 29, 2014 |
|---|---|---|
| Supplemental post-employment plan | $ 3,506 | $ 3,173 |
| Contingent consideration | 1,637 | 2,026 |
| Uncertain tax positions | 1,018 | 1,101 |
| Interest rate swap | 117 | 363 |
| Other | 1,361 | 886 |
| Total other long-term liabilities | $ 7,639 | $ 7,549 |

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

The Company maintains an unfunded supplemental post-employment plan for certain management employees. Each employee's account is credited annually based upon a percentage of the participant's base salary, with each participant's balance adjusted quarterly to reflect returns based upon a stock market index. Amounts are paid to participants only after termination of employment. Expenses recorded for this plan for the three months ended December 28, 2014 and December 29, 2013 were $234 and $301, respectively, and for the six months ended December 28, 2014 and December 29, 2013 were $333 and $520, respectively.

Contingent consideration represents the present value of the long-term portion of contingent payments associated with the Company's December 2013 acquisition of Dillon's draw winding business, described in "Note 4. Acquisition" and "Note 17. Fair Value of Financial Instruments and Non-Financial Assets and Liabilities."

Other primarily includes certain retiree and post-employment medical and disability liabilities and deferred incentives.

**14. Income Taxes**

The effective income tax rates for the three months and six months ended December 28, 2014 and December 29, 2013 were based upon the estimated effective income tax rate applicable for the full year after giving effect to any significant items related specifically to interim periods. The effective income tax rate can be impacted over the course of the fiscal year by the mix and timing of actual earnings from our U.S. and foreign sources versus annual projections and changes in foreign currency exchange rates in relation to the U.S. Dollar. As a result, the Company's effective tax rate may fluctuate significantly on a quarterly basis.

The Company's income tax provision for the three months ended December 28, 2014 and December 29, 2013 resulted in tax expense of $3,193 and $3,924, respectively, with an effective tax rate of 25.9% and 38.7%, respectively. The Company's income tax provision for the six months ended December 28, 2014 and December 29, 2013 resulted in tax expense of $7,354 and $9,675, respectively, with an effective tax rate of 31.8% and 39.5%, respectively.

The effective income tax rate for the current quarter and year-to-date period is lower than the U.S. statutory rate due to (i) the recognition of lower taxable income versus book income for an unconsolidated affiliate, (ii) a lower overall effective tax rate for the Company's foreign earnings and (iii) the domestic production activities deduction, partially offset by state and local taxes and losses in tax jurisdictions for which no tax benefit could be recognized.

The effective income tax rate for the prior year periods is higher than the U.S. statutory rate due to (i) the impact of state and local taxes, (ii) the recognition of higher taxable versus book income for an unconsolidated affiliate for which the Company maintains a full valuation allowance, (iii) foreign dividends taxed in the U.S. and (iv) losses in tax jurisdictions for which no tax benefit could be recognized.

As of December 28, 2014, the Company’s valuation allowance was $18,279 and includes $14,682 for reserves against certain domestic deferred tax assets primarily related to equity investments and foreign tax credits, as well as $3,597 for reserves against certain deferred tax assets of the Company’s foreign subsidiaries that are primarily related to net operating loss carryforwards and equity investments. The Company’s valuation allowance as of June 29, 2014 was $18,615. The decrease in the valuation allowance during the six month period ended December 28, 2014 is attributable to the timing of the Company’s recognition of lower taxable versus book income for an unconsolidated affiliate.

There have been no significant changes in the Company’s liability for uncertain tax positions since June 29, 2014. The Company’s estimate for the potential outcome for any uncertain tax issue is highly judgmental. Management believes that any reasonably foreseeable outcomes related to these matters have been adequately provided for. However, future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire.

The Company and its domestic subsidiaries file a consolidated federal income tax return, as well as income tax returns in numerous state and foreign jurisdictions. The tax years subject to examination vary by jurisdiction. The Company regularly assesses the outcomes of both completed and ongoing examinations to ensure that the Company’s provision for income taxes is sufficient. Currently, the Company is subject to income tax examinations for U.S. federal income taxes for tax years 2011 through 2014, for foreign income taxes for tax years 2008 through 2014, and for state and local income taxes for tax years 2009 through 2014. The U.S. federal tax returns and state tax returns filed for the 2011 through 2013 tax years have utilized carryforward tax attributes generated in prior tax years, including net operating losses, which could potentially be revised upon examination.

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

**15. Shareholders’ Equity**

During fiscal year 2014, the Company completed its repurchase of shares under its $50,000 stock repurchase program that had been approved by the Board on January 22, 2013 (the “2013 SRP”). On April 23, 2014, the Board approved a new stock repurchase program (the “2014 SRP”) to acquire up to an additional $50,000 of the Company’s common stock. Under the 2014 SRP (as was the case under the 2013 SRP), the Company has been authorized to repurchase shares at prevailing market prices, through open market purchases or privately negotiated transactions at such times and prices and in such manner as determined by management, subject to market conditions, applicable legal requirements, contractual obligations and other factors. Repurchases, if any, are expected to be financed through cash generated from operations and borrowings under the Company’s ABL Revolver, and are subject to applicable limitations and restrictions as set forth in the ABL Facility. The 2014 SRP has no stated expiration or termination date, and there is no time limit or specific time frame otherwise for repurchases. The Company may discontinue repurchases at any time that management determines additional purchases are not beneficial or advisable.

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

| | **Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs** | **Average Price Paid per Share** | **Maximum Approximate Dollar Value that May Yet Be Repurchased Under the 2014 SRP** |
|---|---|---|---|
| Fiscal year 2013 | 1,068 | $ 18.08 | |
| Fiscal year 2014 | 1,524 | $ 23.96 | |
| Fiscal year 2015 (through December 28, 2014) | 149 | $ 28.00 | |
| Total | 2,741 | $ 21.89 | $ 40,011 |

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

No dividends were paid during the six months ended December 28, 2014 or in the previous two fiscal years.

**16. Stock-based Compensation**

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

*Stock options*

During the six months ended December 28, 2014 and December 29, 2013, the Company granted stock options to purchase 150 and 97 shares of common stock, respectively, to certain key employees. The stock options vest ratably over the required three-year service period and have ten-year contractual terms. For the six months ended December 28, 2014 and December 29, 2013, the weighted average exercise price of the options was $27.38 and $22.31 per share, respectively. The Company used the Black-Scholes model to estimate the weighted average grant date fair value of $17.31 and $14.66 per share, respectively.

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

| | **For the Six Months Ended** | |
|---|---|---|
| | **December 28, 2014** | **December 29, 2013** |
| Expected term (years) | 7.3 | 7.4 |
| Risk-free interest rate | 2.2% | 2.1% |
| Volatility | 62.6% | 65.9% |
| Dividend yield | — | — |

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

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

A summary of stock option activity for the six months ended December 28, 2014 is as follows:

| | Stock Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at June 29, 2014 | 800 | $ 9.77 | | |
| Granted | 150 | $ 27.38 | | |
| Exercised | (5 ) | $ 8.75 | | |
| Forfeited | (4 ) | $ 8.75 | | |
| Expired | — | $ — | | |
| Outstanding at December 28, 2014 | 941 | $ 12.60 | 6.1 | $ 16,570 |
| Vested and expected to vest as of December 28, 2014 | 934 | $ 12.50 | 6.1 | $ 16,526 |
| Exercisable at December 28, 2014 | 682 | $ 8.61 | 5.1 | $ 14,714 |

At December 28, 2014, 10 non-vested options are subject to a market condition that vests the options on the date that the closing price of the Company's common stock on the New York Stock Exchange has been at least $30 per share for thirty consecutive trading days. During fiscal year 2014, 14 options subject to a similar market condition at a threshold of $24 per share were vested and 10 such vested options remain outstanding at December 28, 2014. The weighted average exercise price of such 20 options subject to a market condition is $8.16.

At December 28, 2014, the remaining unrecognized compensation cost related to unvested stock options was $2,257, which is expected to be recognized over a weighted average period of 2.4 years.

For the six months ended December 28, 2014 and December 29, 2013, the total intrinsic value of options exercised was $81, and $12,521, respectively. The amount of cash received from the exercise of options was $36 and $2,833 and the tax benefit realized from stock options exercised was $32 and $4,905 for the six months ended December 28, 2014 and December 29, 2013, respectively.

*Restricted stock units*

During the six months ended December 28, 2014 and December 29, 2013, the Company granted 17 and 25 restricted stock units ("RSUs"), respectively, to the Company's non-employee directors. The director RSUs became fully vested on the grant date. The director RSUs convey no rights of ownership in shares of Company stock until such director RSUs have been distributed to the grantee in the form of Company stock. The vested director RSUs will be converted into an equivalent number of shares of Company common stock and distributed to the grantee following the grantee's termination of service as a member of the Board. The grantee may elect to defer receipt of the shares of stock in accordance with the deferral options provided under the Unifi, Inc. Director Deferred Compensation Plan. The Company estimated the fair value of such awards granted during the six months ended December 28, 2014 and December 29, 2013 to be $28.58 and $23.23 per director RSU, respectively.

During July 2013, the Company granted 22 RSUs to certain key employees. The employee RSUs are subject to a vesting restriction and convey no rights of ownership in shares of Company stock until such employee RSUs have vested and been distributed to the grantee in the form of Company stock. The employee RSUs vest over a three-year period, and will be converted into an equivalent number of shares of stock (for distribution to the grantee) on each vesting date, unless the grantee has elected to defer the receipt of the shares of stock until separation from service. If, after the first anniversary of the grant date and prior to the final vesting date, the grantee has a separation from service without cause for any reason other than the employee's resignation, the remaining unvested employee RSUs will become fully vested and will be converted to an equivalent number of shares of stock and issued to the grantee. The Company estimated the fair value of such awards granted to be $22.08 per employee RSU.

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

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

A summary of the RSU activity for the six months ended December 28, 2014 is as follows:

| | Non-vested | Weighted Average Grant Date Fair Value | Vested | Total | Weighted Average Grant Date Fair Value |
|---|---|---|---|---|---|
| Outstanding at June 29, 2014 | 49 | $ 16.11 | 152 | 201 | $ 14.19 |
| Granted | 17 | $ 28.58 | — | 17 | $ 28.58 |
| Vested | (46 ) | $ 19.86 | 46 | — | $ 19.86 |
| Converted | — | $ — | (16 ) | (16 ) | $ 14.06 |
| Forfeited | — | $ — | — | — | $ — |
| Outstanding at December 28, 2014 | 20 | $ 18.35 | 182 | 202 | $ 15.45 |

At December 28, 2014, the number of RSUs vested and expected to vest was 202 with an aggregate intrinsic value of $6,121. The aggregate intrinsic value of the 182 vested RSUs at December 28, 2014 was $5,492.

The remaining unrecognized compensation cost related to the unvested RSUs at December 28, 2014 is $137, which is expected to be recognized over a weighted average period of 1.5 years.

For the six months ended December 28, 2014 and December 29, 2013, the total intrinsic value of RSUs converted was $425 and $696, respectively. The tax benefit realized from the conversion of RSUs was $166 and $275 for the six months ended December 28, 2014 and December 29, 2013, respectively.

*Summary*

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 |
| Stock options | $ 499 | $ 282 | $ 963 | $ 438 |
| RSUs | 539 | 670 | 601 | 773 |
| Total compensation cost | $ 1,038 | $ 952 | $ 1,564 | $ 1,211 |

The total income tax benefit recognized for stock-based compensation was $413 and $376 for the six months ended December 28, 2014 and December 29, 2013, respectively.

As of December 28, 2014, total unrecognized compensation costs related to all unvested stock-based compensation arrangements was $2,394. The weighted average period over which these costs are expected to be recognized is 2.3 years.

As of December 28, 2014, a summary of the number of securities remaining available for future issuance under equity compensation plans is as follows:

| | |
|---|---|
| Authorized under the 2013 Plan | 1,000 |
| Plus: Awards expired, forfeited or otherwise terminated unexercised from the 2008 LTIP | — |
| Less: Service-condition options granted | (155 ) |
| Less: RSUs granted to non-employee directors | (42 ) |
| Available for issuance under the 2013 Plan | 803 |

**17. Fair Value of Financial Instruments and Non-Financial Assets and Liabilities**

**Financial Instruments**

The Company may use derivative financial instruments such as foreign currency forward contracts or interest rate swaps to reduce its ongoing business exposures to fluctuations in foreign currency exchange rates or interest rates. The Company does not enter into derivative contracts for speculative purposes.

*Foreign currency forward contracts*

The Company may enter into foreign currency forward contracts as economic hedges for exposures related to certain sales, inventory purchases and equipment purchases which are denominated in currencies that are not its functional currency. Foreign currency forward contracts are not designated as hedges by the Company and are marked to market each period and offset by the foreign exchange (gains) losses included in other operating expense, net resulting from the underlying exposures of the foreign currency denominated assets and liabilities. As of December 28, 2014, there were no outstanding foreign currency forward contracts.

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**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

*Interest rate swap*

On May 18, 2012, the Company entered into a five year, $50,000 interest rate swap with Wells Fargo to provide a hedge against the variability of cash flows related to LIBOR-based variable rate borrowings under the Company's ABL Facility. It increased to $85,000 in May 2013 (when certain other interest rate swaps terminated) and decreases $5,000 per quarter beginning in August 2013 until the balance again reaches $50,000 in February 2015, where it will remain through the life of the instrument. This interest rate swap allows the Company to fix LIBOR at 1.06% and terminates on May 24, 2017. At December 28, 2014, the notional amount of the interest rate swap was $55,000.

On November 26, 2012, the Company de-designated the interest rate swap as a cash flow hedge. For the year-to-date periods ended December 28, 2014 and December 29, 2013, the Company reclassified pre-tax unrealized losses of $193 and $300 from accumulated other comprehensive loss to interest expense, respectively. The Company has recognized a pre-tax mark-to-market gain of $246 and $8 within interest expense for the six months ended December 28, 2014 and December 29, 2013, respectively, related to this interest rate swap. See "Note 18. Accumulated Other Comprehensive Loss" for further discussion of the reclassifications of unrealized losses from accumulated other comprehensive loss.

*Contingent consideration*

On December 2, 2013, the Company acquired certain assets in a business combination with Dillon and recorded a contingent consideration liability, as described in "Note 4. Acquisition." The fair value of the contingent consideration is measured at each reporting period using a discounted cash flow methodology based on inputs not observable in the market (Level 3 classification in the fair value hierarchy). The inputs to the discounted cash flow model include the estimated payments through the term of the agreement based on an agreed-upon definition and schedule, adjusted to risk-neutral estimates using a market price of risk factor which considers relevant metrics of comparable entities, discounted using an observable cost of debt over the term of the estimated payments. Any change in the fair value from either the passage of time or events occurring after the acquisition date is recorded in other operating expense, net. As of December 28, 2014, a recent decline in actual sales volume versus forecasted sales volume has been considered in reflecting a slight decrease in expected future payments, while no other inputs and assumptions used to develop the fair value measurement have changed since the acquisition date.

A reconciliation of the changes in the fair value follows:

| | |
|---|---|
| Contingent consideration as of June 29, 2014 | $2,563 |

| | |
|---|---|
| Change in fair value | (43 ) |
| Payments | (358 ) |
| Contingent consideration as of December 28, 2014 | $2,162 |

Based on the present value of the expected future payments, $525 is reflected in accrued expenses and $1,637 is reflected in other long-term liabilities.

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

| **As of December 28, 2014** | **Notional Amount** | | **USD Equivalent** | **Balance Sheet Location** | **Fair Value Hierarchy** | **Fair Value** |
|---|---|---|---|---|---|---|
| Foreign currency contracts | EUR | — | $ — | Other current assets | Level 2 | $— |
| Interest rate swap | USD | $55,000 | $ 55,000 | Other long-term liabilities | Level 2 | $117 |
| Contingent consideration | | — | — | Accrued expenses and other long-term liabilities | Level 3 | $2,162 |

| **As of June 29, 2014** | **Notional Amount** | | **USD Equivalent** | **Balance Sheet Location** | **Fair Value Hierarchy** | **Fair Value** |
|---|---|---|---|---|---|---|
| Foreign currency contracts | EUR | 495 | $ 668 | Other current assets | Level 2 | $7 |
| Interest rate swap | USD | $65,000 | $ 65,000 | Other long-term liabilities | Level 2 | $363 |
| Contingent consideration | | — | — | Accrued expenses and other long-term liabilities | Level 3 | $2,563 |

(EUR represents the Euro)

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

Estimates for the fair value of the Company's foreign currency forward contracts and interest rate swaps are obtained from month-end market quotes for contracts with similar terms.

The effect of marked to market hedging derivative instruments was as follows:

| Derivatives not designated as hedges | Classification | For the Three Months Ended December 28, 2014 | December 29, 2013 |
| --- | --- | --- | --- |
| Foreign exchange contracts | Other operating expense, net | $ — | $ (16) |
| Interest rate swap | Interest expense | 12 | (148) |
| Total loss (gain) recognized in income | | $ 12 | $ (164) |

| Derivatives not designated as hedges | Classification | For the Six Months Ended December 28, 2014 | December 29, 2013 |
| --- | --- | --- | --- |
| Foreign exchange contracts | Other operating expense, net | $ 7 | $ (22) |
| Interest rate swap | Interest expense | (246) | (8) |
| Total (gain) loss recognized in income | | $ (239) | $ (30) |

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

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

There were no transfers into or out of the levels of the fair value hierarchy for the six months ended December 28, 2014.

**Non-Financial Assets and Liabilities**

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

**18. Accumulated Other Comprehensive Loss**

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

| | Foreign Currency Translation Adjustments | Unrealized (Loss) Gain On Interest Rate Swap | Accumulated Other Comprehensive Loss |
|---|---|---|---|
| Balance at June 29, 2014 | $ (4,241) | $ (378) | $ (4,619) |
| Other comprehensive (loss) income, net of tax | (12,895) | 193 | (12,702) |
| Balance at December 28, 2014 | $ (17,136) | $ (185) | $ (17,321) |

A summary of the pre-tax, tax and after-tax effects of the components of other comprehensive loss for the quarters ended December 28, 2014 and December 29, 2013 is provided as follows:

| | For the Three Months Ended December 28, 2014 | | |
|---|---|---|---|
| | Pre-tax | Tax | After-tax |
| Other comprehensive (loss) income: | | | |
| Foreign currency translation adjustments | $(5,483) | $ — | $ (5,483) |
| Foreign currency translation adjustments for an unconsolidated affiliate | (371) | — | (371) |
| Reclassification adjustment on cash flow hedge | 89 | — | 89 |
| Other comprehensive loss | $(5,765) | $ — | $ (5,765) |

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

| | For the Three Months Ended December 29, 2013 | | |
|---|---|---|---|
| | **Pre-tax** | **Tax** | **After-tax** |
| Other comprehensive (loss) income: | | | |
| Foreign currency translation adjustments | $(3,140) | $ — | $ (3,140 ) |
| Reclassification adjustment on cash flow hedge | 145 | — | 145 |
| Other comprehensive loss | $(2,995) | $ — | $ (2,995 ) |

A summary of the pre-tax, tax and after-tax effects of the components of other comprehensive loss for the six months ended December 28, 2014 and December 29, 2013 is provided as follows:

| | For the Six Months Ended December 28, 2014 | | |
|---|---|---|---|
| | **Pre-tax** | **Tax** | **After-tax** |
| Other comprehensive (loss) income: | | | |
| Foreign currency translation adjustments | $(12,524) | $ — | $(12,524 ) |
| Foreign currency translation adjustments for an unconsolidated affiliate | (371 ) | — | (371 ) |
| Reclassification adjustment on cash flow hedge | 193 | — | 193 |
| Other comprehensive loss | $(12,702) | $ — | $(12,702 ) |

| | For the Six Months Ended December 29, 2013 | | |
|---|---|---|---|
| | **Pre-tax** | **Tax** | **After-tax** |
| Other comprehensive (loss) income: | | | |
| Foreign currency translation adjustments | $(3,462) | $ — | $ (3,462 ) |
| Reclassification adjustment on cash flow hedge | 300 | — | 300 |
| Other comprehensive loss | $(3,162) | $ — | $ (3,162 ) |

**19. Computation of Earnings Per Share**

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 |
| *Basic EPS* | | | | |
| Net income attributable to Unifi, Inc. | $ 9,418 | $ 6,443 | $ 16,495 | $ 15,313 |
| Weighted average common shares outstanding | 18,180 | 19,136 | 18,235 | 19,200 |
| Basic EPS | $ 0.52 | $ 0.34 | $ 0.90 | $ 0.80 |
| | | | | |
| *Diluted EPS* | | | | |
| Net income attributable to Unifi, Inc. | $ 9,418 | $ 6,443 | $ 16,495 | $ 15,313 |
| | | | | |
| Weighted average common shares outstanding | 18,180 | 19,136 | 18,235 | 19,200 |
| Net potential common share equivalents – stock options and RSUs | 602 | 758 | 600 | 832 |
| Adjusted weighted average common shares outstanding | 18,782 | 19,894 | 18,835 | 20,032 |
| Diluted EPS | $ 0.50 | $ 0.32 | $ 0.88 | $ 0.76 |
| | | | | |
| Excluded from the calculation of common share equivalents: | | | | |
| Anti-dilutive common share equivalents | 177 | 91 | 177 | 91 |
| | | | | |
| Excluded from the calculation of diluted shares: | | | | |
| Unvested options that vest upon achievement of certain market conditions | 10 | 13 | 10 | 13 |

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

The calculation of earnings per common share is based on the weighted average number of the Company's common shares outstanding for the applicable period. The calculation of diluted earnings per common share presents the effect of all potential dilutive common shares that were outstanding during the respective period, unless the effect of doing so is anti-dilutive. Common share equivalents where the exercise price is above the average market price are excluded in the calculation of diluted earnings per common share.

## 20. Other Operating Expense, Net

Other operating expense, net consists of the following:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 |
| Operating expenses for Renewables | $ 739 | $ 580 | $ 1,741 | $ 1,204 |
| Foreign currency transaction losses | 61 | 79 | 374 | 173 |
| Net loss on sale or disposal of assets | 17 | 299 | 17 | 340 |
| Restructuring charges, net | — | 222 | — | 1,118 |
| Change in fair value of contingent consideration | (118) | — | (43) | — |
| Other, net | 3 | (35) | 74 | (66) |
| Other operating expense, net | $ 702 | $ 1,145 | $ 2,163 | $ 2,769 |

Operating expenses for Renewables include amounts incurred for employee costs, land and equipment rental costs, contract labor, freight costs, fuel, operating supplies, product testing, and administrative costs. Operating expenses for Renewables also includes $98 and $80 of depreciation and amortization expense for the three months ended December 28, 2014 and December 29, 2013, respectively, and $196 and $160 for the six months ended December 28, 2014 and December 29, 2013, respectively.

The components of restructuring charges, net consist of the following:

| | For the Three Months Ended December 28, 2014 | | For the Six Months Ended December 28, 2014 | |
|---|---|---|---|---|
| | | December 29, 2013 | | December 29, 2013 |
| Severance | $ — | $ 103 | $ — | $ 769 |
| Equipment relocation and reinstallation costs | — | 119 | — | 349 |
| Total restructuring charges, net | $ — | $ 222 | $ — | $ 1,118 |

*Severance*

On May 14, 2013, the Company and one of its executive officers entered into a severance agreement that provided severance and certain other benefits through November 2014. On August 12, 2013, the Company and another of its executive officers entered into a severance agreement that provided severance payments through November 2014 and certain other benefits through December 2014. The table below presents changes to the severance reserves for the six months ended December 28, 2014:

| | Balance June 29, 2014 | Charged to expense | Charged to other accounts | Payments | Adjustments | Balance December 28, 2014 |
|---|---|---|---|---|---|---|
| Accrued severance | $ 374 | — | (19) | (355) | — | $ — |

*Equipment Relocation and Reinstallation Costs*

During the first six months of fiscal year 2014, the Company dismantled and relocated certain polyester draw warping equipment from Monroe, North Carolina to a Burlington, North Carolina facility. The Company also dismantled and relocated certain polyester texturing and twisting equipment between locations in North Carolina and El Salvador. The costs incurred for the relocation of equipment were charged to restructuring expense within the Polyester Segment.

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

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

*Parkdale America, LLC*

In June 1997, the Company and Parkdale Mills, Inc. ("Mills") entered into a Contribution Agreement that set forth the terms and conditions by which the two companies contributed all of the assets of their spun cotton yarn operations utilizing open-end and air-jet spinning technologies to create Parkdale America, LLC ("PAL"). In exchange for its contribution, the Company received a 34% ownership interest in PAL, which is accounted for using the equity method of accounting. Effective January 1, 2012, Mills' interest in PAL was assigned to Parkdale Incorporated. PAL is a limited liability company treated as a partnership for income tax reporting purposes. PAL is a producer of cotton and synthetic yarns for sale to the textile industry and apparel market, both foreign and domestic. PAL has 14 manufacturing facilities located primarily in the southeast region of the U.S. and in Mexico. According to its most recently issued audited financial statements, PAL's five largest customers accounted for approximately 74% of total revenues and 78% of total gross accounts receivable outstanding. As PAL's fiscal year end is the Saturday nearest to December 31 and its results are considered significant, the Company files an amendment to each Annual Report on Form 10-K on or before 90 days subsequent to PAL's fiscal year end to provide PAL's audited financial statements for PAL's most recent fiscal year. The Company filed an amendment to its Annual Report on Form 10-K for the fiscal year ended June 30, 2013 on March 27, 2014 to provide PAL's audited financial statements for PAL's fiscal year ended December 28, 2013. The Company will file an amendment to the 2014 Form 10-K on or before April 3, 2015 to provide PAL's audited financial statements for PAL's fiscal year ending January 3, 2015.

During August 2008, a federal government program commenced providing economic adjustment assistance to domestic users of upland cotton (the "EAP program"). The EAP program offers a subsidy for cotton consumed in domestic production, and the subsidy is paid the month after the eligible cotton is consumed. The subsidy must be used within eighteen months after the marketing year in which it is earned to purchase qualifying capital expenditures in the U.S. for production of goods from upland cotton. The marketing year is from August 1 to July 31. The program provides a subsidy of up to three cents per pound. In February 2014, the federal government extended the EAP program for five years. The cotton subsidy will remain at three cents per pound for the life of the program. PAL recognizes its share of income for the cotton subsidy when the cotton has been consumed and the qualifying assets have been acquired, with an appropriate allocation methodology considering the dual criteria of the subsidy.

PAL is subject to price risk related to anticipated fixed-price yarn sales. To protect the gross margin of these sales, PAL may enter into cotton futures to manage changes in raw material prices in order to protect the gross margin of fixed-priced yarn sales. The derivative instruments used are listed and traded on an exchange and are thus valued using quoted prices classified within Level 1 of the fair value hierarchy. As of December 2014, PAL had no futures contracts designated as cash flow hedges.

As of December 28, 2014, the Company’s investment in PAL was $102,041 and reflected within investments in unconsolidated affiliates in the condensed consolidated balance sheets. The reconciliation between the Company’s share of the underlying equity of PAL and its investment is as follows:

| | |
|---|---|
| Underlying equity as of December 28, 2014 | $ 120,412 |
| Initial excess capital contributions | 53,363 |
| Impairment charge recorded by the Company in 2007 | (74,106 ) |
| Anti-trust lawsuit against PAL in which the Company did not participate | 2,652 |
| EAP adjustments | (280 ) |
| Investment as of December 28, 2014 | $ 102,041 |

On August 28, 2014, PAL acquired the remaining 50% ownership interest in a yarn manufacturer based in Mexico in which PAL was historically a 50% member. The acquisition is expected to increase PAL’s regional manufacturing capacity and expand its product offerings and customer base. PAL has accounted for the transaction as a business combination under the acquisition method, recognizing the assets acquired and liabilities assumed at their respective provisional fair values as of the acquisition date. The Company and PAL concluded that the acquisition did not represent a material business combination. PAL has recognized a provisional after-tax gain of approximately $4,600 in its initial accounting for the acquisition for all identified assets and liabilities. The Company and PAL will continue to review the acquisition accounting during the measurement period, and if new information obtained about facts and circumstances that existed at the acquisition date identifies adjustments to the assets or liabilities initially recognized, as well as any additional assets or liabilities that existed at the acquisition date, the acquisition accounting will be revised to reflect the resulting adjustments to the provisional amounts. The acquisition accounting is incomplete, primarily pending final real estate and other asset valuations, along with a comprehensive assessment of the impact on income taxes.

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

*U.N.F. Industries, Ltd.*

In September 2000, the Company and Nilit Ltd. ("Nilit") formed a 50/50 joint venture, U.N.F. Industries Ltd. ("UNF"), for the purpose of operating nylon extrusion assets to manufacture nylon POY. Raw material and production services for UNF are provided by Nilit under separate supply and services agreements. UNF's fiscal year end is December 31 and it is a registered Israeli private company located in Migdal Ha-Emek, Israel.

*UNF America, LLC*

In October 2009, the Company and Nilit America Inc. ("Nilit America") formed a 50/50 joint venture, UNF America LLC ("UNF America"), for the purpose of operating a nylon extrusion facility which manufactures nylon POY. Raw material and production services for UNF America are provided by Nilit America under separate supply and services agreements. UNF America's fiscal year end is December 31 and it is a limited liability company treated as a partnership for income tax reporting purposes located in Ridgeway, Virginia.

In conjunction with the formation of UNF America, the Company entered into a supply agreement with UNF and UNF America whereby the Company agreed to purchase all of its first quality nylon POY requirements for texturing (subject to certain exceptions) from either UNF or UNF America. The agreement has no stated minimum purchase quantities and pricing is negotiated every six months, based on market rates. As of December 28, 2014, the Company's open purchase orders related to this agreement were $3,276.

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

| | **For the Six Months Ended** | |
|---|---|---|
| | **December 28, 2014** | **December 29, 2013** |
| UNF | $ 1,817 | $ 6,243 |
| UNF America | 14,274 | 11,776 |
| Total | $ 16,091 | $ 18,019 |

As of December 28, 2014 and June 29, 2014, the Company had combined accounts payable due to UNF and UNF America of $3,764 and $3,966, respectively.

The Company has determined that UNF and UNF America are variable interest entities ("VIEs") and has also determined that the Company is the primary beneficiary of these entities, based on the terms of the supply agreement. As a result, these entities should be consolidated in the Company's financial results. As the Company purchases substantially all of the output from the two entities, the two entities' balance sheets constitute 3% or less of the Company's current assets, total assets and total liabilities, and such balances are not expected to comprise a larger portion in the future, the Company has not included the accounts of UNF and UNF America in its consolidated financial statements. As of December 28, 2014, the Company's combined investments in UNF and UNF America were $3,707 and are shown within investments in unconsolidated affiliates in the Condensed Consolidated Balance Sheets. The financial results of UNF and UNF America are included in the Company's financial statements with a one month lag, using the equity method of accounting and with intercompany profits eliminated in accordance with the Company's accounting policy. Other than the supply agreement discussed above, the Company does not provide any other commitments or guarantees related to either UNF or UNF America.

Condensed balance sheet and income statement information for the Company's unconsolidated affiliates is presented in the following tables. As PAL is defined as significant, its information is separately disclosed. For the three months and six months ended December 28, 2014, PAL's corresponding fiscal periods consisted of 14 weeks and 27 weeks, respectively.

| | **As of December 28, 2014** | | |
|---|---|---|---|
| | **PAL** | **Other** | **Total** |
| Current assets | $245,637 | $11,969 | $257,606 |
| Noncurrent assets | 177,820 | 515 | 178,335 |
| Current liabilities | 42,897 | 5,136 | 48,033 |
| Noncurrent liabilities | 26,406 | — | 26,406 |
| Shareholders' equity and capital accounts | 354,154 | 7,348 | 361,502 |
| The Company's portion of undistributed earnings | 31,730 | 1,372 | 33,102 |

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

| | As of June 29, 2014 | | |
|---|---|---|---|
| | **PAL** | **Other** | **Total** |
| Current assets | $248,651 | $9,187 | $257,838 |
| Noncurrent assets | 143,720 | 3,065 | 146,785 |
| Current liabilities | 50,696 | 5,437 | 56,133 |
| Noncurrent liabilities | 5,432 | — | 5,432 |
| Shareholders' equity and capital accounts | 336,243 | 6,815 | 343,058 |

| | For the Three Months Ended December 28, 2014 | | |
|---|---|---|---|
| | **PAL** | **Other** | **Total** |
| Net sales | $192,243 | $8,955 | $201,198 |
| Gross profit | 12,063 | 1,007 | 13,070 |
| Income from operations | 6,909 | 655 | 7,564 |
| Net income | 9,039 | 685 | 9,724 |
| Depreciation and amortization | 8,161 | 25 | 8,186 |
| | | | |
| Cash received by PAL under EAP program | 4,153 | — | 4,153 |
| Earnings recognized by PAL for EAP program | 3,854 | — | 3,854 |
| | | | |
| Distributions received | — | — | — |

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

| | For the Three Months Ended December 29, 2013 | | |
|---|---|---|---|
| | **PAL** | **Other** | **Total** |
| Net sales | $190,629 | $9,371 | $200,000 |
| Gross profit | 16,665 | 1,199 | 17,864 |
| Income from operations | 13,348 | 761 | 14,109 |
| Net income | 14,076 | 801 | 14,877 |
| Depreciation and amortization | 7,204 | 25 | 7,229 |
| | | | |
| Cash received by PAL under EAP program | 3,439 | — | 3,439 |
| Earnings recognized by PAL for EAP program | 7,205 | — | 7,205 |
| | | | |
| Distributions received | — | 500 | 500 |

As of the end of PAL's fiscal December 2013 period, PAL's amount of deferred revenues related to the EAP program was $0.

| | For the Six Months Ended December 28, 2014 | | |
|---|---|---|---|
| | **PAL** | **Other** | **Total** |
| Net sales | $398,479 | $16,315 | $414,794 |
| Gross profit | 23,032 | 1,662 | 24,694 |
| Income from operations | 13,723 | 948 | 14,671 |
| Net income | 19,003 | 1,024 | 20,027 |
| Depreciation and amortization | 15,369 | 50 | 15,419 |
| | | | |
| Cash received by PAL under EAP program | 8,454 | — | 8,454 |
| Earnings recognized by PAL for EAP program | 8,755 | — | 8,755 |
| | | | |
| Distributions received | — | — | — |

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

| | For the Six Months Ended December 29, 2013 | | |
|---|---|---|---|
| | **PAL** | **Other** | **Total** |
| Net sales | $413,166 | $17,911 | $431,077 |
| Gross profit | 36,755 | 2,125 | 38,880 |
| Income from operations | 29,920 | 1,249 | 31,169 |
| Net income | 31,416 | 1,329 | 32,745 |
| Depreciation and amortization | 14,286 | 50 | 14,336 |
| | | | |
| Cash received by PAL under EAP program | 7,493 | — | 7,493 |
| Earnings recognized by PAL for EAP program | 16,284 | — | 16,284 |
| | | | |
| Distributions received | 2,559 | 500 | 3,059 |

**22. Commitments and Contingencies**

*Collective Bargaining Agreements*

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

*Environmental*

On September 30, 2004, the Company completed its acquisition of the polyester filament manufacturing assets located in Kinston, North Carolina from INVISTA S.a.r.l ("Invista"). The land for the Kinston site was leased pursuant to a 99 year ground lease ("Ground Lease") with E.I. DuPont de Nemours ("DuPont"). Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the U.S. Environmental Protection Agency ("EPA") and the North Carolina Department of Environment and Natural Resources ("DENR") pursuant to the Resource Conservation and Recovery Act Corrective Action program. The Corrective Action program requires DuPont to identify all potential areas of environmental concern ("AOCs"), assess the extent of containment at the identified AOCs and to clean it up to comply with applicable regulatory standards. Effective March 20, 2008, the Company entered into a Lease Termination Agreement associated with conveyance of certain assets at Kinston to DuPont. This agreement terminated the Ground Lease and relieved the Company of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to the Company's period of operation of the Kinston site, which was from 2004 to 2008. However, the Company continues to own a satellite service facility acquired in the INVISTA transaction that has contamination from DuPont's operations and is monitored by DENR. This site has been remediated by DuPont, and DuPont has received authority from DENR to discontinue remediation, other than natural attenuation. DuPont's duty to monitor and report to DENR will be transferred to the Company in the future, at which time DuPont must pay the Company for seven years of monitoring and reporting costs and the Company will assume responsibility for any future remediation and monitoring of the site. At this time, the Company has no basis to determine if or when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same.

*Operating Leases*

The Company routinely leases sales and administrative office space, warehousing and distribution centers, manufacturing space, transportation equipment, manufacturing equipment, and other information technology and office equipment from third parties. In addition, Renewables leases farm land for use in growing FREEDOM® Giant Miscanthus ("FGM"). Currently, the Company does not sub-lease any of its leased property.

**23. Related Party Transactions**

For details regarding the nature of certain related party relationships, see "Note 25. Related Party Transactions" included in the 2014 Form 10-K. There were no new related party transactions during the six months ended December 28, 2014.

Related party receivables consist of the following:

| | December 28, 2014 | | June 29, 2014 | |
|---|---|---|---|---|
| Cupron, Inc. | $ | 21 | $ | 1 |
| Salem Global Logistics, Inc. | | 4 | | 12 |
| Dillon Yarn Corporation | | — | | 4 |
| Total related party receivables (included within receivables, net) | $ | 25 | $ | 17 |

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

Related party payables consist of the following:

| | December 28, 2014 | June 29, 2014 |
|---|---|---|
| Cupron, Inc. | $ 453 | $ 525 |
| Salem Leasing Corporation | 288 | 272 |
| Dillon Yarn Corporation | 84 | 131 |
| Total related party payables (included within accounts payable) | $ 825 | $ 928 |

Related party transactions consist of the following:

| Affiliated Entity | Transaction Type | For the Three Months Ended December 28, 2014 | December 29, 2013 |
|---|---|---|---|
| Dillon Yarn Corporation | Yarn purchases | $ 473 | $ 565 |
| Dillon Yarn Corporation | Sales | — | 380 |
| Salem Leasing Corporation | Transportation equipment costs | 947 | 911 |
| Salem Global Logistics, Inc. | Freight services | 63 | — |
| Cupron, Inc. | Sales | 208 | 131 |
| Cupron, Inc. | Yarn purchases | 210 | 139 |
| Invemed Associates LLC | Brokerage services | — | 4 |

| Affiliated Entity | Transaction Type | For the Six Months Ended December 28, 2014 | December 29, 2013 |
|---|---|---|---|
| Dillon Yarn Corporation | Yarn purchases | $ 1,048 | $ 1,452 |
| Dillon Yarn Corporation | Sales | — | 1,235 |
| Salem Leasing Corporation | Transportation equipment costs | 1,897 | 1,826 |
| Salem Global Logistics, Inc. | Freight services | 132 | — |
| Cupron, Inc. | Sales | 549 | 157 |
| Cupron, Inc. | Yarn purchases | 210 | 139 |
| Invemed Associates LLC | Brokerage services | 2 | 8 |

**24. Business Segment Information**

The Company has three operating segments, which are also its reportable segments. These segments derive revenues as follows:

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

The Nylon Segment manufactures textured yarns (both nylon and polyester) and covered spandex yarns, with sales to knitters and weavers that produce fabric primarily for the apparel and hosiery markets. The Nylon Segment consists of sales and manufacturing operations in the U.S. and Colombia.

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

The Company evaluates the operating performance of its segments based upon Segment Adjusted Profit, which is defined as segment gross profit plus segment depreciation and amortization less segment selling, general and administrative ("SG&A") expenses and plus segment other adjustments. Segment operating profit represents segment net sales less cost of sales, restructuring and other charges and SG&A expenses. The accounting policies for the segments are consistent with the Company's accounting policies. Intersegment sales are accounted for at current market prices.

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

Selected financial information for the Polyester, Nylon and International Segments is presented below:

| | For the Three Months Ended December 28, 2014 | | | |
|---|---|---|---|---|
| | **Polyester** | **Nylon** | **International** | **Total** |
| Net sales | $90,431 | $39,212 | $ 33,506 | $163,149 |
| Cost of sales | 77,892 | 33,545 | 28,429 | 139,866 |
| Gross profit | 12,539 | 5,667 | 5,077 | 23,283 |
| Selling, general and administrative expenses | 7,752 | 2,605 | 2,227 | 12,584 |
| Other operating expenses | — | — | 31 | 31 |
| Segment operating profit | $4,787 | $3,062 | $ 2,819 | $10,668 |

| | For the Three Months Ended December 29, 2013 | | | |
|---|---|---|---|---|
| | **Polyester** | **Nylon** | **International** | **Total** |
| Net sales | $89,430 | $39,800 | $ 31,387 | $160,617 |
| Cost of sales | 79,633 | 35,041 | 27,446 | 142,120 |
| Gross profit | 9,797 | 4,759 | 3,941 | 18,497 |
| Selling, general and administrative expenses | 7,068 | 2,384 | 2,039 | 11,491 |
| Restructuring charges | 119 | — | — | 119 |
| Segment operating profit | $2,610 | $2,375 | $ 1,902 | $6,887 |

The reconciliations of segment operating profit to consolidated income before income taxes are as follows:

| | For the Three Months Ended | |
|---|---|---|
| | **December 28, 2014** | **December 29, 2013** |
| Polyester | $4,787 | $ 2,610 |
| Nylon | 3,062 | 2,375 |
| International | 2,819 | 1,902 |
| Segment operating profit | 10,668 | 6,887 |
| Provision for bad debts | 63 | 87 |
| Other operating expense, net | 671 | 1,026 |
| Operating income | 9,934 | 5,774 |
| Interest income | (309 ) | (142 ) |
| Interest expense | 1,209 | 903 |

| | | |
|---|---|---|
| Equity in earnings of unconsolidated affiliates | (3,281 ) | (5,122 ) |
| Income before income taxes | $ 12,315 | $ 10,135 |

Selected financial information for the Polyester, Nylon and International Segments is presented below:

| | **For the Six Months Ended December 28, 2014** | | | |
|---|---|---|---|---|
| | **Polyester** | **Nylon** | **International** | **Total** |
| Net sales | $ 183,409 | $ 83,922 | $ 70,000 | $ 337,331 |
| Cost of sales | 160,415 | 73,068 | 59,610 | 293,093 |
| Gross profit | 22,994 | 10,854 | 10,390 | 44,238 |
| Selling, general and administrative expenses | 14,558 | 4,875 | 4,437 | 23,870 |
| Other operating expenses | 26 | 16 | 52 | 94 |
| Segment operating profit | $ 8,410 | $ 5,963 | $ 5,901 | $ 20,274 |

| | **For the Six Months Ended December 29, 2013** | | | |
|---|---|---|---|---|
| | **Polyester** | **Nylon** | **International** | **Total** |
| Net sales | $ 182,992 | $ 79,515 | $ 66,779 | $ 329,286 |
| Cost of sales | 162,835 | 70,062 | 57,907 | 290,804 |
| Gross profit | 20,157 | 9,453 | 8,872 | 38,482 |
| Selling, general and administrative expenses | 13,103 | 4,434 | 4,068 | 21,605 |
| Restructuring charges | 349 | — | — | 349 |
| Segment operating profit | $ 6,705 | $ 5,019 | $ 4,804 | $ 16,528 |

**Unifi, Inc.**

**Notes to Condensed Consolidated Financial Statements – (Continued)**

The reconciliations of segment operating profit to consolidated income before income taxes are as follows:

| | For the Six Months Ended | |
|---|---|---|
| | December 28, 2014 | December 29, 2013 |
| Polyester | $8,410 | $ 6,705 |
| Nylon | 5,963 | 5,019 |
| International | 5,901 | 4,804 |
| Segment operating profit | 20,274&nb | |