

UNIFI INC
Form 10-K/A
March 29, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 26, 2016

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 (I.R.S. Employer
incorporation or organization) Identification No.)

7201 West Friendly Avenue

Greensboro, North Carolina 27410

(Address of principal executive offices) (Zip Code)

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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	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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

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 24, 2015, the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant was approximately \$463,197,360. The registrant has no non-voting stock.

As of August 18, 2016, the number of shares of the registrant's common stock outstanding was 17,975,945.

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 solicitation of proxies for its 2016 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

EXPLANATORY NOTE

Unifi, Inc. (the “Company”) is filing this Amendment No. 1 on Form 10-K/A (this “Amendment”) to amend Item 15 of its Annual Report on Form 10-K for the fiscal year ended June 26, 2016 (the “Original 10-K”), filed with the Securities and Exchange Commission (the “SEC”) on August 26, 2016, to include the financial statements and related notes of Parkdale America, LLC (“PAL”), an unconsolidated joint venture in which the Company holds a 34% equity ownership interest. The Company accounts for its interest in PAL using the equity method of accounting.

Rule 3-09 of Regulation S-X under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), provides that if a 50%-or-less-owned person accounted for by the equity method meets the first or third condition of the significant subsidiary tests set forth in Rule 1-02(w) of Regulation S-X, substituting 20% for 10%, separate financial statements for such 50%-or-less-owned person shall be filed. PAL met the significant subsidiary test described above for the Company’s fiscal years ended June 26, 2016, June 28, 2015 and June 29, 2014. The Company’s significance test is calculated as of the end of its fiscal year and for its fiscal year.

Item 15 of the Original 10-K is being amended by this Amendment to (i) include the required audited financial statements for PAL’s fiscal years ended December 31, 2016, January 2, 2016 and January 3, 2015, (ii) include reference to the PAL financial statements and the related reports of PAL’s independent accountants and independent auditors, (iii) file the consents of the independent accountants and independent auditors related to their opinions contained in this report and (iv) include certifications under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. In accordance with Rule 12b-15 of the Exchange Act, the text of the amended Item 15 is set forth in its entirety in the pages attached hereto. In addition, this Amendment includes an updated exhibit index in respect thereof.

This Amendment does not otherwise update or amend any other items or disclosures as originally filed and does not otherwise reflect events occurring after the filing date of the Original 10-K. Accordingly, this Amendment should be read in conjunction with the Original 10-K and the Company’s other filings with the SEC subsequent to the filing of the Original 10-K on August 26, 2016.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)1. Financial Statements

The financial statements and schedules listed in the accompanying Index to Consolidated Financial Statements on page F-1 are filed as part of this report.

2. Financial Statement Schedules

Financial Statements of Parkdale America, LLC (“PAL”) as of December 31, 2016 and January 2, 2016 and for PAL’s fiscal years ended December 31, 2016, January 2, 2016 and January 3, 2015.

PAL is an unconsolidated joint venture in which the Company holds a 34% equity ownership interest and met the significant subsidiary test for the Company’s fiscal years ended June 26, 2016, June 28, 2015 and June 29, 2014. Accordingly, pursuant to Rule 3-09(b)(2) of Regulation S-X under the Exchange Act, the Company is filing the required financial statements and related notes of PAL via this Amendment.

PAL’s fiscal year end is the Saturday nearest to December 31, and is therefore consistently more than 90 days after the Company’s corresponding fiscal year end, which is the last Sunday in June. PAL’s most recent fiscal year, 2016, ended on December 31, 2016 and PAL’s prior fiscal year, 2015, ended on January 2, 2016.

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Pursuant to Rule 3-09(b)(2) of Regulation S-X under the Exchange Act, the Company filed the required fiscal year 2015 financial statements and related notes of PAL on March 31, 2016 via an amendment to the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 2015.

PricewaterhouseCoopers LLP ("PwC") issued audit reports for PAL's fiscal years 2016 and 2014 while BDO USA, LLP ("BDO") issued an audit report for PAL's fiscal year 2015.

Due to the significance of PAL to the consolidated financial statements of the Company, PAL's auditor is required to be independent of the Company in accordance with the auditor independence standards of Regulation S-X.

Subsequent to the Company's fiscal 2015 year end, but prior to the filing of the corresponding Annual Report on Form 10-K, PwC informed the Company that PwC had performed certain non-audit services, as engaged by the Company, that were not in accordance with the auditor independence standards of Regulation S-X. The non-audit services performed by PwC for the Company were related to internal audit associate-level staff secondments. Total fees paid by the Company to

PwC for these non-audit services were approximately \$151,000 and \$108,000 for the Company's fiscal years 2015 and 2014, respectively.

The Audit Committee of the Company's Board of Directors and PwC separately considered the impact that these non-audit services may have had on PwC's independence with respect to PAL. Both the Company's Audit Committee and PwC concluded that the services performed did not affect PwC's ability to be objective and impartial in the conduct of its audit of the January 3, 2015 PAL financial statements. In making this determination, both the Company's Audit Committee and PwC considered, among other things, that at all times the Company retained all decision making over the scope of work and the conclusions formed, the insignificant amount of fees involved, the nature of the services provided and that the services were not the subject of, or related to, PwC's audits of PAL's financial statements.

As a result of the independence violations discussed above, BDO served as PAL's independent auditor for PAL's fiscal year 2015. Changes were implemented to the structure of these non-audit engagements performed on behalf of the Company such that, for PAL's fiscal year 2016, PwC was independent of the Company in accordance with the auditor independence standards of Regulation S-X.

3. Exhibits

Exhibit

Number Description

- 3.1(i)(a) Restated Certificate of Incorporation of Unifi, Inc. (the "Company"), as amended (incorporated by reference to Exhibit 3a to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 2004 (Reg. No. 001-10542) filed on September 17, 2004).
- 3.1(i)(b) Certificate of Change to the Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated July 31, 2006).
- 3.1(i)(c) Certificate of Amendment to Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated November 3, 2010).
- 3.1(ii) Restated By-laws of the Company (last amended July 20, 2016) (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated July 22, 2016).
- 4^ None^
- 4.1 Registration Rights Agreement dated January 1, 2007 between the Company and Dillon Yarn Corporation (incorporated by reference from Exhibit 7.1 to the Schedule 13D dated January 11, 2007 filed by Dillon Yarn Corporation).
- 4.2 Amended and Restated Credit Agreement, by and among Wells Fargo Bank, National Association, as administrative agent, sole lead arranger, and sole book runner, the lenders that are parties thereto, as the lenders, and the Company and certain of its domestic subsidiaries, as borrowers, dated as of March 26, 2015 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated March 31, 2015).

- 4.3 First Amendment to Amended and Restated Credit Agreement, dated as of June 26, 2015, by and among the Company and Unifi Manufacturing, Inc., as borrowers, and Wells Fargo Bank, National Association, as agent for the Lenders (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated June 30, 2015).
- 4.4 Second Amendment to Amended and Restated Credit Agreement, dated as of November 19, 2015, by and among the Company and Unifi Manufacturing, Inc., as borrowers, and Wells Fargo Bank, National Association, as agent for the Lenders (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated November 23, 2015).
- 4.5 Amended and Restated Guaranty and Security Agreement, dated as of March 26, 2015, among the Grantors from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated March 31, 2015).
- 4.6 First Amendment to Amended and Restated Guaranty and Security Agreement, dated as of June 26, 2015, by and among the Grantors from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated June 30, 2015).

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- 4.7 Trademark Security Agreement, dated as of May 24, 2012, among the Grantors from time to time party thereto and Wells Fargo Bank, N.A., as agent (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated May 25, 2012).
- 4.8 Patent Security Agreement, dated as of May 24, 2012, among the Grantors from time to time party thereto and Wells Fargo Bank, N.A., as agent (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated May 25, 2012).
- 10.1* 1999 Unifi, Inc. Long-Term Incentive Plan (incorporated by reference from Exhibit 99.1 to the Company's Registration Statement on Form S-8 (Reg. No. 333-43158) filed on August 7, 2000).
- 10.2* Form of Option Agreement for Incentive Stock Options granted under the 1999 Unifi, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated July 31, 2006).
- 10.3* 2008 Unifi, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 (Reg. No. 333-156090) filed on December 12, 2008).
- 10.4* Form of Option Agreement for Incentive Stock Options granted under the 2008 Unifi, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 28, 2008 (Reg. No. 001-10542) filed on February 6, 2009).
- 10.5* Form of Restricted Stock Unit Agreement for restricted stock units granted under the 2008 Unifi, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 26, 2010 (Reg. No. 001-10542) filed on February 4, 2011).
- 10.6* Form of Restricted Stock Unit Agreement for Employees for restricted stock units granted under the 2008 Unifi, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 25, 2011 (Reg. No. 001-10542) filed on November 4, 2011).
- 10.7* Unifi, Inc. 2013 Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated October 23, 2013).
- 10.8* Form of Restricted Stock Unit Agreement for Non-Employee Directors, for use in connection with Unifi, Inc. 2013 Incentive Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated October 23, 2013).
- 10.9* Form of Restricted Stock Unit Agreement for Employees, for use in connection with Unifi, Inc. 2013 Incentive Compensation Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 29, 2013 (Reg. No. 001-10542) filed on February 7, 2014).
- 10.10* Form of Incentive Stock Option Agreement (for Executives and Other Officer-Level Employees), for use in connection with Unifi, Inc. 2013 Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 29, 2013 (Reg. No.

001-10542) filed on February 7, 2014).

- 10.11* Unifi, Inc. Supplemental Key Employee Retirement Plan, effective July 26, 2006 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated July 31, 2006).
- 10.12* Amendment to the Unifi, Inc. Supplemental Key Employee Retirement Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated January 5, 2009).
- 10.13* Unifi, Inc. Director Deferred Compensation Plan, dated as of December 14, 2010 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 26, 2010 (Reg. No. 001-10542) filed on February 4, 2011).
- 10.14* Change in Control Agreement between the Company and Thomas H. Caudle, Jr., effective August 14, 2009 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated August 18, 2009).
- 10.15* Amendment No. 1 to Change in Control Agreement between the Company and Thomas H. Caudle, Jr., effective December 31, 2011 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated January 5, 2012).

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- 10.16* Amendment No. 2 to Change in Control Agreement between the Company and Thomas H. Caudle, Jr., effective December 31, 2014 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated December 1, 2014).
- 10.17* Agreement between Unifi, Inc. and James M. Otterberg dated November 2, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 27, 2015 (Reg. No. 001-10542) filed on February 4, 2016).
- 10.18* Consulting Agreement between Unifi, Inc. and William L. Jasper dated April 27, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) filed on April 28, 2016).
- 10.19* Agreement between Unifi, Inc. and R. Roger Berrier, Jr. dated April 27, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) filed on April 28, 2016).
- 10.20*† Letter Agreement between Unifi, Inc. and Sean D. Goodman dated October 22, 2015.
- 10.21 Sales and Services Agreement dated January 1, 2007 between the Company and Dillon Yarn Corporation (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-3 (Reg. No. 333-140580) filed on February 9, 2007).
- 10.22 First Amendment to Sales and Service Agreement between Unifi Manufacturing, Inc. and Dillon Yarn Corporation, effective January 1, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated December 2, 2008).
- 10.23 Second Amendment to Sales and Service Agreement between Unifi Manufacturing, Inc. and Dillon Yarn Corporation, effective January 1, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated December 11, 2009).
- 10.24 Third Amendment to Sales and Service Agreement between Unifi Manufacturing, Inc. and Dillon Yarn Corporation, effective January 1, 2011 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated December 22, 2010).
- 10.25 Fourth Amendment to Sales and Service Agreement between Unifi Manufacturing, Inc. and Dillon Yarn Corporation, effective January 1, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated December 20, 2011).
- 10.26 Yarn Purchase Agreement effective as of September 1, 2014 between Unifi Manufacturing, Inc. and Hanesbrands Inc. (portions of the exhibit have been redacted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request) (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2014 (Reg. No. 001-10542) filed on September 10, 2014).
- 10.27 Deposit Account Control Agreement, dated as of May 24, 2012, among Unifi Manufacturing, Inc., Wells Fargo Bank, N.A., and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated May 25, 2012).

- 21.1† List of Subsidiaries.
- 23.1† Consent of KPMG LLP, Independent Registered Public Accounting Firm.
- 23.2+ Consent of PricewaterhouseCoopers LLP, Independent Accountants to Parkdale America, LLC.
- 23.3+ Consent of BDO USA, LLP, Independent Auditors to Parkdale America, LLC.
- 31.1† Principal executive officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2† Principal financial officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3+ Principal executive officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.4+ Principal financial officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1† Principal executive officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2† Principal financial officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.3++ Principal executive officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Exhibit

Number Description

32.4++ Principal financial officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101† The following materials from the Company's Annual Report on Form 10-K for the annual period ended June 26, 2016, formatted in eXtensible Business Reporting Language ("XBRL"): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.

+ Filed herewith.

++ Furnished herewith.

Previously filed or furnished, as applicable, with the Original 10-K on August 26, 2016.

* Indicates a management contract or compensatory plan or arrangement.

^ The Company has long-term debt but has not filed the instruments evidencing such debt as part of Exhibit 4, as none of such instruments authorizes the issuance of debt exceeding 10% of the total consolidated assets of the Company. The Company agrees to furnish a copy of each such agreement to the SEC upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNIFI, INC.

(Registrant)

Date: March 29, 2017 By: /s/ SEAN D. GOODMAN
Sean D. Goodman
Vice President and Chief Financial Officer

(Principal Financial Officer and Principal
Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
3.1(i)(a)	Restated Certificate of Incorporation of Unifi, Inc. (the “Company”), as amended (incorporated by reference to Exhibit 3a to the Company’s Annual Report on Form 10-K for the fiscal year ended June 27, 2004 (Reg. No. 001-10542) filed on September 17, 2004).
3.1(i)(b)	Certificate of Change to the Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K (Reg. No. 001-10542) dated July 31, 2006).
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3.1(ii)	Restated By-laws of the Company (last amended July 20, 2016) (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K (Reg. No. 001-10542) dated July 22, 2016).
4^	None^
4.1	Registration Rights Agreement dated January 1, 2007 between the Company and Dillon Yarn Corporation (incorporated by reference from Exhibit 7.1 to the Schedule 13D dated January 11, 2007 filed by Dillon Yarn Corporation).
4.2	Amended and Restated Credit Agreement, by and among Wells Fargo Bank, National Association, as administrative agent, sole lead arranger, and sole book runner, the lenders that are parties thereto, as the lenders, and the Company and certain of its domestic subsidiaries, as borrowers, dated as of March 26, 2015 (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K (Reg. No. 001-10542) dated March 31, 2015).
4.3	First Amendment to Amended and Restated Credit Agreement, dated as of June 26, 2015, by and among the Company and Unifi Manufacturing, Inc., as borrowers, and Wells Fargo Bank, National Association, as agent for the Lenders (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K (Reg. No. 001-10542) dated June 30, 2015).
4.4	Second Amendment to Amended and Restated Credit Agreement, dated as of November 19, 2015, by and among the Company and Unifi Manufacturing, Inc., as borrowers, and Wells Fargo Bank, National Association, as agent for the Lenders (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K (Reg. No. 001-10542) dated November 23, 2015).
4.5	Amended and Restated Guaranty and Security Agreement, dated as of March 26, 2015, among the Grantors from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K (Reg. No. 001-10542) dated March 31, 2015).

- 4.6 First Amendment to Amended and Restated Guaranty and Security Agreement, dated as of June 26, 2015, by and among the Grantors from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated June 30, 2015).
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- 4.8 Patent Security Agreement, dated as of May 24, 2012, among the Grantors from time to time party thereto and Wells Fargo Bank, N.A., as agent (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated May 25, 2012).
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- 10.4* Form of Option Agreement for Incentive Stock Options granted under the 2008 Unifi, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 28, 2008 (Reg. No. 001-10542) filed on February 6, 2009).
- 10.5* Form of Restricted Stock Unit Agreement for restricted stock units granted under the 2008 Unifi, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 26, 2010 (Reg. No. 001-10542) filed on February 4, 2011).
- 10.6* Form of Restricted Stock Unit Agreement for Employees for restricted stock units granted under the 2008 Unifi, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 25, 2011 (Reg. No. 001-10542) filed on November 4, 2011).
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- 10.8* Form of Restricted Stock Unit Agreement for Non-Employee Directors, for use in connection with Unifi, Inc. 2013 Incentive Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated October 23, 2013).
- 10.9* Form of Restricted Stock Unit Agreement for Employees, for use in connection with Unifi, Inc. 2013 Incentive Compensation Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 29, 2013 (Reg. No. 001-10542) filed on February 7, 2014).
- 10.10* Form of Incentive Stock Option Agreement (for Executives and Other Officer-Level Employees), for use in connection with Unifi, Inc. 2013 Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 29, 2013 (Reg. No. 001-10542) filed on February 7, 2014).
- 10.11* Unifi, Inc. Supplemental Key Employee Retirement Plan, effective July 26, 2006 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated July 31, 2006).
- 10.12* Amendment to the Unifi, Inc. Supplemental Key Employee Retirement Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated January 5, 2009).
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- 10.15* Amendment No. 1 to Change in Control Agreement between the Company and Thomas H. Caudle, Jr., effective December 31, 2011 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on

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Form 8-K (Reg. No. 001-10542) dated January 5, 2012).

- 10.16* Amendment No. 2 to Change in Control Agreement between the Company and Thomas H. Caudle, Jr., effective December 31, 2014 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated December 1, 2014).
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- 10.19* Agreement between Unifi, Inc. and R. Roger Berrier, Jr. dated April 27, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) filed on April 28, 2016).
- 10.20*† Letter Agreement between Unifi, Inc. and Sean D. Goodman dated October 22, 2015.
- 10.21 Sales and Services Agreement dated January 1, 2007 between the Company and Dillon Yarn Corporation (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-3 (Reg. No. 333-140580) filed on February 9, 2007).

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Exhibit

Number Description

- 10.22 First Amendment to Sales and Service Agreement between Unifi Manufacturing, Inc. and Dillon Yarn Corporation, effective January 1, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated December 2, 2008).
- 10.23 Second Amendment to Sales and Service Agreement between Unifi Manufacturing, Inc. and Dillon Yarn Corporation, effective January 1, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated December 11, 2009).
- 10.24 Third Amendment to Sales and Service Agreement between Unifi Manufacturing, Inc. and Dillon Yarn Corporation, effective January 1, 2011 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated December 22, 2010).
- 10.25 Fourth Amendment to Sales and Service Agreement between Unifi Manufacturing, Inc. and Dillon Yarn Corporation, effective January 1, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated December 20, 2011).
- 10.26 Yarn Purchase Agreement effective as of September 1, 2014 between Unifi Manufacturing, Inc. and Hanesbrands Inc. (portions of the exhibit have been redacted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request) (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2014 (Reg. No. 001-10542) filed on September 10, 2014).
- 10.27 Deposit Account Control Agreement, dated as of May 24, 2012, among Unifi Manufacturing, Inc., Wells Fargo Bank, N.A., and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Reg. No. 001-10542) dated May 25, 2012).
- 21.1† List of Subsidiaries.
- 23.1† Consent of KPMG LLP, Independent Registered Public Accounting Firm.
- 23.2+ Consent of PricewaterhouseCoopers LLP, Independent Accountants to Parkdale America, LLC.
- 23.3+ Consent of BDO USA, LLP, Independent Auditors to Parkdale America, LLC.
- 31.1† Principal executive officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2† Principal financial officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3+ Principal executive officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.4+ Principal financial officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1† Principal executive officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2† Principal financial officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.3++ Principal executive officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.4++ Principal financial officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101† The following materials from the Company's Annual Report on Form 10-K for the annual period ended June 26, 2016, formatted in eXtensible Business Reporting Language ("XBRL"): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.

+Filed herewith.

++Furnished herewith.

Previously filed or furnished, as applicable, with the Original 10-K on August 26, 2016.

*Indicates a management contract or compensatory plan or arrangement.

^The Company has long-term debt but has not filed the instruments evidencing such debt as part of Exhibit 4, as none of such instruments authorizes the issuance of debt exceeding 10% of the total consolidated assets of the Company. The Company agrees to furnish a copy of each such agreement to the SEC upon request.

Parkdale America, LLC and Subsidiaries

(A Limited Liability Company)

Consolidated Financial Statements

As of December 31, 2016 and January 2, 2016 and for the three years ended December 31, 2016

Parkdale America, LLC and Subsidiaries

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Report of Independent Auditors

To the Board of Members of
Parkdale America, LLC

We have audited the accompanying consolidated financial statements of Parkdale America, LLC and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2016 and the related consolidated statements of operations, comprehensive income, members' equity and cash flows for the fiscal years ended December 31, 2016 and January 3, 2015.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements, referred to above present fairly, in all material respects, the financial position of Parkdale America, LLC and its subsidiaries as of December 31, 2016 and the results of their operations and their cash flows for the fiscal years ended December 31, 2016 and January 3, 2015 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina
March 28, 2017

Report of Independent Auditors

To the Board of Members of
Parkdale America, LLC
Gastonia, North Carolina

We have audited the accompanying consolidated financial statements of Parkdale America, LLC and its subsidiaries, which comprise the consolidated balance sheet as of January 2, 2016 and the related consolidated statements of operations, comprehensive income, members' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Parkdale America, LLC and its subsidiaries as of January 2, 2016 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Charlotte, North Carolina

March 30, 2016

Parkdale America, LLC and Subsidiaries

(A Limited Liability Company)

Consolidated Balance Sheets

December 31, 2016 and January 2, 2016

	December 31, 2016	January 2, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 26,362,000	\$ 8,946,000
Trade accounts receivable (less allowance of \$2,737,000 and \$3,811,000 in 2016 and 2015, respectively)	87,574,000	94,364,000
Other receivables	1,624,000	2,351,000
Due from affiliates	159,000	6,000
Inventories, net	120,438,000	109,514,000
Prepaid expenses and other assets	2,260,000	2,756,000
Due from broker	517,000	1,425,000
Derivative assets	2,011,000	863,000
Total current assets	240,945,000	220,225,000
Property, plant and equipment, net	188,953,000	208,775,000
Deferred financing costs, net	278,000	465,000
Other noncurrent assets	844,000	1,432,000
Total assets	\$ 431,020,000	\$ 430,897,000

Liabilities and Members' Equity

Current liabilities

Trade accounts payable	\$ 27,220,000	\$ 27,771,000
Accrued expenses	9,861,000	11,161,000
Due to affiliates	4,141,000	4,342,000
Derivative liabilities	1,540,000	936,000
	42,762,000	44,210,000

Total current liabilities		
Other long-term liabilities	2,889,000	3,013,000
Notes payable to affiliate	-	5,000,000
Deferred revenue	323,000	355,000
Total liabilities	45,974,000	52,578,000
Commitments and contingencies (Note 13)		
Members' equity	385,046,000	378,319,000
Total liabilities and members' equity	\$ 431,020,000	\$ 430,897,000

The accompanying notes are an integral part of these financial statements.

Parkdale America, LLC and Subsidiaries

(A Limited Liability Company)

Consolidated Statements of Operations

Years Ended December 31, 2016 and January 2, 2016 and January 3, 2015

	2016	2015	2014
Net sales	\$ 776,208,000	\$ 837,311,000	\$ 831,578,000
Cost of goods sold	748,824,000	793,652,000	778,676,000
Gross profit	27,384,000	43,659,000	52,902,000
General and administrative expenses	16,376,000	17,601,000	17,503,000
Gain on disposals of property, plant and equipment	(138,000)	(938,000)	(813,000)
Income from operations	11,146,000	26,996,000	36,212,000
Interest expense	283,000	478,000	295,000
Interest income	(342,000)	(205,000)	(203,000)
Earnings from investment in joint venture	-	-	(744,000)
(Gain) loss on foreign exchange contracts	-	(35,000)	1,024,000
Gain on acquisitions	-	(9,382,000)	(4,430,000)
Foreign exchange gain, net	(1,239,000)	(1,160,000)	(1,009,000)
Other income, net	(29,000)	(396,000)	(204,000)
Income before provision for income taxes	12,473,000	37,696,000	41,483,000
Provision for income taxes	1,026,000	648,000	278,000
Net income	\$ 11,447,000	\$ 37,048,000	\$ 41,205,000

The accompanying notes are an integral part of these financial statements.

Parkdale America, LLC and Subsidiaries

(A Limited Liability Company)

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2016 and January 2, 2016 and January 3, 2015

	2016	2015	2014
Net income	\$11,447,000	\$37,048,000	\$41,205,000
Other comprehensive loss:			
Foreign currency translation	(2,413,000)	(2,407,000)	(1,798,000)
Other comprehensive loss	(2,413,000)	(2,407,000)	(1,798,000)
Comprehensive income	\$ 9,034,000	\$34,641,000	\$39,407,000

The accompanying notes are an integral part of these financial statements.

Parkdale America, LLC and Subsidiaries

(A Limited Liability Company)

Consolidated Statements of Members' Equity

Years Ended December 31, 2016 and January 2, 2016 and January 3, 2015

	Accumulated Other Comprehensive Income (Loss)	Members' Equity	Total Members' Equity
Balance at December 28, 2013	\$ -	\$340,065,000	\$340,065,000
Net income	-	41,205,000	41,205,000
Foreign currency translation	(1,798,000)	-	(1,798,000)
Dividends paid	-	(25,748,000)	(25,748,000)
Balance at January 3, 2015	(1,798,000)	355,522,000	353,724,000
Net income	-	37,048,000	37,048,000
Foreign currency translation	(2,407,000)	-	(2,407,000)
Dividends paid	-	(10,046,000)	(10,046,000)
Balance at January 2, 2016	(4,205,000)	382,524,000	378,319,000
Net income	-	11,447,000	11,447,000
Foreign currency translation	(2,413,000)	-	(2,413,000)
Dividends paid	-	(2,307,000)	(2,307,000)
Balance at December 31, 2016	\$ (6,618,000)	\$391,664,000	\$385,046,000

The accompanying notes are an integral part of these financial statements.

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Parkdale America, LLC and Subsidiaries

(A Limited Liability Company)

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and January 2, 2016 and January 3, 2015

	2016	2015	2014
Cash flows from operating activities			
Net income	\$ 11,447,000	\$ 37,048,000	\$ 41,205,000
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	44,951,000	41,922,000	27,848,000
Gain on disposals of property, plant and equipment	(138,000)	(938,000)	(813,000)
Amortization of deferred financing costs	187,000	188,000	191,000
Earnings from investment in joint venture	-	-	(744,000)
Dividends received from joint venture	-	-	400,000
Deferred income taxes	(119,000)	(45,000)	223,000
Net change in derivative instruments	364,000	(1,023,000)	400,000
Gain on purchase of manufacturing assets	-	(9,382,000)	-
Gain on purchase of joint venture entities-		-	(4,430,000)
Changes in operating assets and liabilities			
Trade accounts receivable, net	6,220,000	21,433,000	1,202,000
Other receivables	721,000	(2,000)	2,344,000
Income tax receivable	34,000	275,000	263,000
Value added tax receivable	873,000	(671,000)	(368,000)
	(1,099,000)	(2,523,000)	453,000

Due to/from affiliates, net			
Inventories	(10,924,000)	4,386,000	(598,000)
Prepaid expenses and other assets	(59,000)	212,000	(106,000)
Other noncurrent assets	526,000	(494,000)	(24,000)
Trade accounts payable	(657,000)	3,769,000	(10,179,000)
Accrued expenses and other liabilities	(1,825,000)	(366,000)	(610,000)
Deferred income	(32,000)	(1,793,000)	(2,162,000)
Other noncurrent liabilities	369,000	(381,000)	(638,000)
Net cash provided by operating activities	50,839,000	91,615,000	53,857,000
Cash flows from investing activities			
Purchase of manufacturing assets	-	(13,340,000)	-
Purchase of remaining joint venture interest, net of cash acquired -		-	(9,175,000)
Purchases of property, plant and equipment	(26,307,000)	(57,041,000)	(82,612,000)
Proceeds from disposal of property, plant and equipment	328,000	1,452,000	2,498,000
Net cash used in investing activities	(25,979,000)	(68,929,000)	(89,289,000)

The accompanying notes are an integral part of these financial statements.

Parkdale America, LLC and Subsidiaries

(A Limited Liability Company)

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and January 2, 2016 and January 3, 2015

	2016	2015	2014
Cash flows from financing activities			
Borrowings from affiliate	\$ -	\$ 25,000,000	\$ 70,000,000
Repayment of borrowings from affiliate	(5,000,000)	(40,000,000)	(50,000,000)
Dividends paid	(2,307,000)	(10,046,000)	(25,748,000)
Net cash used in financing activities	(7,307,000)	(25,046,000)	(5,748,000)
Effect of exchange rate on cash and cash equivalents	(137,000)	(105,000)	(133,000)
Net increase (decrease) in cash and cash equivalents	17,416,000	(2,465,000)	(41,313,000)
Cash and cash equivalents			
Beginning of year	8,946,000	11,411,000	52,724,000
End of year	\$ 26,362,000	\$ 8,946,000	\$ 11,411,000
Supplemental disclosures of cash flow information			
Cash paid during the year for			
Interest	\$ 7,000	\$ 290,000	\$ 104,000
Taxes	303,000	429,000	163,000
Accrued purchases of property, plant and equipment	2,702,000	2,878,000	2,678,000

The accompanying notes are an integral part of these financial statements.

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Parkdale America, LLC and Subsidiaries

(A Limited Liability Company)

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of Business

On June 30, 1997, Parkdale Mills, Inc. (“Mills”) and Unifi, Inc. (“Unifi”) entered into a Contribution Agreement (the “Agreement”) that sets 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 (the “Company”). In exchange for their respective contributions, Mills and Unifi received a 66% and 34% ownership interest in the Company, respectively.

On January 1, 2012, Mills contributed its interest in the Company to its newly formed parent company, Parkdale, Incorporated (“Parkdale, Inc.”).

Principles of Consolidation

The accompanying consolidated financial statements include the consolidated accounts of the Company and its wholly-owned subsidiaries Summit Yarn, LLC (“Summit Yarn”) and Summit Yarn Holding I, Inc. (“Summit Holding”) and its subsidiary Grupo Burlpark, S.A. de C.V. (“Grupo”), a Mexican company. Summit Yarn and Summit Holding are collectively referred to as the “Summit Entities.”

On August 28, 2014 the Company entered into an Equity Redemption Agreement (“Redemption Agreement”) through the Summit Entities and International Textile Group, Inc. (“ITG”) to redeem and retire ITG’s 50% interest in the Summit Entities. The statement of financial position, results of operations, and cash flows of Summit Yarn and Summit Holding are consolidated in the financial statements from the date of the Redemption Agreement. Prior to the Redemption Agreement, the Company accounted for its 50% interest in the Summit Entities using the equity method (see Note 3).

All significant intercompany transactions and accounts have been eliminated in consolidation.

Operations

The Company is a producer of cotton and synthetic yarns for sale to the textile and apparel industries, both foreign and domestic. As of December 31, 2016, the Company has 14 manufacturing facilities located in North America.

The Company’s fiscal year end is the Saturday nearest to December 31. The Company’s fiscal years 2016, 2015, and 2014 ended on December 31, 2016, January 2, 2016, and January 3, 2015, respectively. Fiscal year 2014 contained 53 weeks while fiscal years 2016 and 2015 contained 52 weeks.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenues upon shipment of goods, when persuasive evidence of an arrangement exists, the price is fixed or determinable, and collectability is reasonably assured. Revenue for product sales is recognized as risk and title to the product transfers to the customer, which usually occurs at the time shipment is made. Product sales are typically under the terms of free on board shipping point. As such, title to the product passes when the product is delivered to the freight carrier. Revenue is recorded net of estimated sales returns and allowances and discounts.

Parkdale America, LLC and Subsidiaries

(A Limited Liability Company)

Notes to Consolidated Financial Statements

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying value of these cash equivalents approximates their fair values. The Company maintains cash deposits with major banks that may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes the risk of loss to be remote.

Concentration of Credit Risk

Substantially all of the Company's accounts receivable is due from companies in the textile and apparel markets located primarily throughout North America. The Company generally does not require collateral for its accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Allowances provided for doubtful accounts were \$2,737,000 and \$3,811,000 as of December 31, 2016 and January 2, 2016, respectively.

Sales to five customers accounted for approximately 81%, 77%, and 76%, of total sales during fiscal years 2016, 2015, and 2014, respectively. As of December 31, 2016 and January 2, 2016, accounts receivable from five customers composed 80% and 86%, respectively, of total gross accounts receivable outstanding.

Fair Value Measurements

The Company follows the guidance in Accounting Standards Codification ("ASC") 820, "Fair Value Measurement", to account for fair value measurements. The guidance emphasizes that fair value is a market based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, the guidance establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair values as follows:

Level 1 – Observable inputs, such as quoted prices in active markets

Level 2 – Inputs, other than quoted prices in active markets, that are observable either directly or indirectly

Level 3 – Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions

The Company's derivative instruments represent the only balances which are measured at fair value on a recurring basis. The fair value of derivative instruments is based on quoted prices in active markets (Level 1 for cotton futures contracts). See Note 10 for separate disclosure of derivatives measured at fair value.

The carrying amount of money market funds, receivables, and accounts payable approximate fair value because of the short-term maturity of such instruments.

Self-Insurance

The Company is self-insured for certain losses relating to workers' compensation, and medical and dental claims. The Company has stop-loss coverage to limit the exposure arising from these claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates of the ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Accruals for workers' compensation are reported on a discounted basis.

Basis of Foreign Currency Translation

The functional currency for Grupo is the Mexican peso. Grupo's financial statements are translated into U.S. dollars for consolidation purposes. Investment and equity accounts are translated at historical values. All

Parkdale America, LLC and Subsidiaries

(A Limited Liability Company)

Notes to Consolidated Financial Statements

other asset and liability accounts are translated at quoted year end rates. Revenue and expenses are translated on a monthly basis at the average rates of exchange in effect during the periods. Gains and losses on translation are recorded in accumulated other comprehensive income (loss) as a component of members' equity on the accompanying consolidated balance sheets.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Repairs and maintenance, which do not extend the life of the applicable assets, are expensed. Provisions for depreciation are determined principally by an accelerated method over the estimated useful lives of the assets.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets to determine impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Economic Assistance Program

During August 2008, a federal government program commenced providing economic adjustment assistance to domestic users of upland cotton. A cotton subsidy is paid to manufacturers for cotton consumed in domestic production. The subsidy must be used within 18 months after the marketing year earned to purchase qualifying capital expenditures in the United States for production of goods from upland cotton. The marketing year is from August 1 to July 31. During the period beginning on August 1, 2008, and ending on July 31, 2012, the value of the assistance was four cents per pound of consumed cotton. Effective August 1, 2012, the value of the assistance decreased to three cents per pound of consumed cotton.

The Company recognizes income for the cotton subsidy when the cotton has been consumed and the qualifying assets have been acquired. The Company recognized income of \$14,949,000, \$16,570,000, and \$15,980,000, for the cotton consumption portion of the subsidy earned during the fiscal years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively, as a reduction to cost of goods sold in the accompanying statements of operations. The Company records the portion of the cotton subsidy deemed to be associated with the qualifying capital expenditures as a reduction of the cost of the equipment purchased. The portion of the subsidy earned associated with the qualifying capital expenditures for 2016, 2015 and 2014 was \$609,000, \$662,000, and \$553,000, respectively. This amount was capitalized and is amortized over the nine year useful life on a double declining methodology, consistent with the useful life of the assets acquired.

The Company had receivables totaling \$791,000 and \$1,192,000 related to the subsidy program as of December 31, 2016 and January 2, 2016, respectively, which is included as a component of other receivables on the accompanying consolidated balance sheets.

Shipping Costs

The costs to ship products to customers of approximately \$22,196,000, \$24,394,000, and \$20,911,000 during the fiscal years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively, are included as a component of cost of goods sold in the accompanying consolidated statements of operations.

Recent Accounting Pronouncements

In May 2014, the FASB issued "Revenue From Contracts With Customers" (ASU 2014-09), that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The pronouncement is based on the

Parkdale America, LLC and Subsidiaries

(A Limited Liability Company)

Notes to Consolidated Financial Statements

principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As amended by ASU 2015-14, this pronouncement is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the new guidance to determine the method of adoption and the impact it will have on its consolidated financial statements.

In February 2016, the FASB issued "Leases" (ASU 2016-02) that requires companies to recognize lease assets and lease liabilities by lessees for all operating leases. The pronouncement is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact this new guidance will have on its consolidated financial statements.

2. Business Combination

On February 27, 2015, the Company acquired certain real property, machinery and equipment, and inventory from a yarn manufacturer ("Seller") for cash consideration totaling \$13,340,000. The acquisition qualified as a business combination. In connection with the acquisition, the Company recorded the assets acquired based on their estimated fair values at the date of acquisition. The results of operations of these facilities have been included in these consolidated financial statements commencing with the date of acquisition. The fair values of acquired real property and machinery and equipment were approximately \$19,382,000, and the fair value of acquired inventory was approximately \$3,340,000, resulting in a bargain purchase gain of \$9,382,000. There were no liabilities assumed in connection with the acquisition. Concurrent with the transaction, the Company and the Seller entered into an eight year yarn supply agreement with terms approximating market value.

The Company has assessed the key valuation assumptions and business combination accounting procedures for this acquisition and believes that the recognition of a bargain purchase gain is appropriate. The most significant factor contributing to the bargain purchase gain was the yarn supply agreement that provides the Seller with the flexibility to meet the changing demands of their customers.

3. Investment in Summit Yarn Joint Venture

On June 4, 1998, Mills and Burlington Industries, Inc. ("Burlington") entered into a Joint Venture and Contribution Agreement (the "JV Agreement") whereby Mills and Burlington agreed to contribute certain assets and cash for the purpose of constructing, operating, and managing a yarn manufacturing facility (the "Joint Venture"), which qualifies under the Maquiladora program in accordance with applicable Mexican law and for the marketing and sale of yarn manufactured by Summit Yarn. In exchange for their respective contributions, Mills and Burlington each received a 50% ownership interest in Summit Yarn. Concurrent with the formation of Summit Yarn, Mills and Burlington formed Summit Holding which serves as the holding company for Mills' and Burlington's investment in various Mexican corporations related to the Joint Venture. Mills and Burlington each received a 50% ownership interest in Summit Holding.

Effective January 15, 2002, Mills transferred its ownership in the Summit Entities to the Company. The investment was transferred at Mills' historical basis of \$14,257,000, which included notes receivable from Summit totaling \$5,227,000.

Effective August 2, 2004, Burlington transferred its ownership in the Summit Entities to ITG.

On August 28, 2014 the Company entered into an Equity Redemption Agreement (“Redemption Agreement”), through the Summit Entities, with ITG to redeem and retire ITG’s 50% interest in the Summit Entities. The purchase price was \$10,125,000 and a gain of \$4,430,000 was recognized in the accompanying consolidated statement of operations. The results of the Summit Entities are consolidated in the financial

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statements from the date of the Redemption Agreement. Prior to the Redemption Agreement, the Company accounted for its 50% interest in the Summit Entities using the equity method. In conjunction with the Redemption Agreement, Summit Yarn executed a yarn supply contract with ITG. The yarn supply agreement was at market rates at the transaction date and accordingly no intangible asset was recorded as a result of the agreement.

4. Inventories

Inventories are stated at the lower of cost or market. Cost was determined using the specific identification method for raw materials, yarn-in-process, and finished yarn inventories. The Company performs periodic assessments to determine the existence of obsolete and slow-moving inventories and records necessary provisions to reduce such inventories to net realizable value. Inventories as of December 31, 2016 and January 2, 2016, consist of the following:

	2016	2015
Cotton and synthetics	\$ 60,772,000	\$ 51,887,000
Yarn in process	8,643,000	10,439,000
Finished yarn	52,702,000	46,923,000
Supplies	1,472,000	1,625,000
	123,589,000	110,874,000
Less: Inventory reserves	(3,151,000)	(1,360,000)
	\$ 120,438,000	\$ 109,514,000

5. Property, Plant and Equipment

A summary of property, plant and equipment as of December 31, 2016 and January 2, 2016, is as follows:

	Useful Lives in Years	2016	2015
Land and land improvements	15	\$ 10,116,000	\$ 9,648,000
Buildings	15 - 39	120,119,000	114,117,000
Machinery and equipment	5 - 9	592,842,000	577,633,000
Office furniture and	3 - 7	20,593,000	18,585,000

fixtures	743,670,000	719,983,000
Less:		
accumulated depreciation	(556,470,000)	(516,861,000)
Construction in progress	1,753,000	5,653,000
Property, plant and equipment, net	\$ 188,953,000	\$ 208,775,000

Depreciation expense for the fiscal years ended December 31, 2016, January 2, 2016, and January 3, 2015, was \$44,951,000, \$41,922,000, and \$27,848,000, respectively.

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6. Income Taxes

The Company is a limited liability company treated as a partnership for federal and state income tax reporting purposes. As a result, the Company's results of operations are included in the income tax returns of its individual members. Accordingly, income taxes are accounted for at the individual member level. Therefore, the Company has not recorded a separate provision for income taxes.

The Company through Grupo computes deferred taxes based on the after tax effects of temporary differences between the basis of assets and liabilities for financial reporting purposes and the basis for income tax reporting purposes, using the applicable statutory tax rates. Summit Holding maintains that the undistributed earnings of Grupo will be indefinitely reinvested in foreign jurisdictions; therefore no deferred tax liability has been recorded with respect to this subsidiary's earnings.

The provision for income taxes for the years ended December 31, 2016, January 2, 2016, and January 3, 2015, is comprised of the following:

	2016	2015	2014
Current income tax	\$ 1,145,000	\$ 693,000	\$ 55,000
Deferred income tax	(119,000)	(45,000)	223,000
Total income tax	\$ 1,026,000	\$ 648,000	\$ 278,000

As a result of the elimination of the tax consolidation in Mexico for tax years beginning January 1, 2013, Grupo is required to pay \$352,000 in taxes computed under the previous regime over the next three years.

The most significant temporary difference that gives rise to deferred tax liabilities is fixed assets. Grupo has recorded a deferred tax liability of \$895,000 related to deferred tax basis differences which is included in other long-term liabilities. For Grupo, the effective tax rate differs from the statutory rates primarily due to inflationary adjustments under the Mexican tax regime and non-deductible expenses.

The Company does not believe that it has taken any uncertain tax positions that would require recognition of a contingent liability. The tax returns of Summit Holding for tax years 2013 and forward remain subject to examination by U.S. tax authorities, while the tax years 2005 through 2012 remain subject to examination by U.S. tax authorities to the extent of net operating loss carryforwards, which are not significant. Grupo's tax returns remain subject to examination by Mexican tax authorities for tax years 2012 and forward.

7. Deferred Revenue

In connection with a 2009 business combination, the Company received equipment from Hanesbrands, Inc. in 2010 having a fair value of \$12,111,000. This equipment was contributed to the Company in connection with a vendor managed inventory program between the Company and Hanesbrands, Inc. The Company recorded the equipment received at its fair value at the date acquired, and recorded deferred revenue which is being amortized over the life of the yarn supply agreement. The remaining deferred revenue related to this agreement was \$1,741,000 at January 3, 2015 and became fully recognized during 2015.

Deferred revenue as of December 31, 2016 and January 2, 2016 relates to a government grant that is being amortized over a 16 year life.

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8. Deferred Financing Costs

The Company capitalized financing costs of \$938,000 in 2013 related to a revolving credit facility (see Note 9). These costs are being amortized over the term of the debt agreement, which matures on June 28, 2018. Amortization was \$187,000, \$188,000, and \$191,000 for fiscal years 2016, 2015, and 2014, respectively, and is included as a component of interest expense in the accompanying consolidated statements of operations. Estimated future amortization expense of deferred financing costs is summarized as follows:

Fiscal Year	Amount
2017	\$ 188,000
2018	90,000

9. Long-Term Debt – Related Party

On June 28, 2013, the Company entered into a \$175,000,000 revolving credit facility with its parent company, having a maturity date of June 28, 2018. At the Company's option, borrowings under the facility may be maintained as (1) "Base Rate" loans or (2) "Eurodollar" (LIBOR) loans, plus applicable margins ranging from 0.00% to 2.49%. The agreement includes customary covenants that require the Company to maintain a minimum fixed-charge coverage ratio and restrict its leverage ratio. The Company was in compliance with these covenants as of December 31, 2016. There were \$0 and \$5,000,000 in borrowings outstanding on the credit facility as of December 31, 2016 and January 2, 2016, respectively.

10. Derivative Instruments

All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative is recorded in accumulated other comprehensive income or loss and are recognized in earnings when the hedged item affects earnings. Ineffective portions of changes in the fair value of derivatives designated as cash flow hedges are recognized in earnings as they occur.

The Company is subject to price risk related to anticipated fixed-price yarn sales. In the normal course of business, under procedures and controls established by the Company's financial risk management framework, the Company may enter into cotton futures contracts to manage changes in raw material prices in order to protect the gross margin of fixed-price yarn sales. The changes in fair value related to these cotton futures are reflected as an operating activity in the accompanying consolidated statements of cash flows. As of December 31, 2016 and January 2, 2016, the Company has recorded these instruments at their fair value of \$988,000 and \$1,352,000, respectively, in the accompanying consolidated balance sheets.

Fair Value	Fair Value
December 31, 2016	January 2, 2016

Derivative assets			
Nonhedge commodity contracts	\$	2,011,000	\$ 863,000
Derivative liabilities			
Nonhedge commodity contracts	(1,540,000)		(936,000)
Due from broker	517,000		1,425,000
Net derivative asset	\$	988,000	\$ 1,352,000

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The Company's derivative instruments are listed and traded on an exchange and are thus valued using quoted prices classified within Level 1 of the fair value hierarchy. The fair value of the derivative instruments are classified as current assets and liabilities as of December 31, 2016 and January 2, 2016. The Company did not have any assets or liabilities classified as Level 2 or Level 3 at December 31, 2016 or January 2, 2016.

The Company enters into forward contracts for certain cotton purchases, which qualify as derivative instruments. However, these contracts meet the applicable criteria to qualify for the "normal purchases and normal sales" exemption in ASC 815, "Derivatives and Hedging". Therefore, the derivative accounting requirements are not applicable to these contracts.

The Company did not elect the "normal purchases and normal sales" exemption for certain other cotton purchase agreements, which qualify as derivatives for accounting purposes. As a result, such contracts were recorded at fair value on the Company's balance sheets and changes in fair value for these contracts were included in cost of goods sold in the accompanying consolidated statements of operations. The Company used futures contracts to economically hedge changes in fair value of these contracts. As of January 3, 2015, \$4,990,000 of realized gains on these contracts was recorded as a reduction to inventory.

In January 2015, the Company elected the "normal purchases and normal sales" exemption, for all cotton purchase agreements, making the derivative accounting requirements not applicable for these contracts entered into after January 3, 2015. The \$4,990,000 of realized gains recorded as a reduction to inventory was released to cost of goods sold as the cotton was consumed during the year ended January 2, 2016.

The Company recorded net gains (losses) on forward contracts and cotton purchase agreements designated as derivatives of \$3,565,000, \$10,119,000, and \$(3,724,000) for the years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively. These gains (losses) are included in the cost of goods sold in the accompanying consolidated statements of operations.

Collateral is settled daily on these contracts and is shown on the balance sheet as "Due to broker" or "Due from broker".

11. Defined Contribution Plan

The Company maintains a defined contribution retirement plan available to substantially all employees. The Company's contributions are based on a formula for matching employee contributions. The Company incurred costs for this plan of \$1,003,000, \$973,000, and \$773,000 during the fiscal years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively. Also, in accordance with Mexican labor law, Grupo has a contingent liability for severance, voluntary separation, seniority premium, and pension payments to employees terminating under certain circumstances. Management has determined that these liabilities are not material at December 31, 2016 and January 2, 2016.

12. Related-Party Transactions

Shared Expenses Allocation

The Company and Mills share certain warehousing, distribution and manufacturing expenses that are allocated based on the usages of these services. Amounts charged to the Company for these services were approximately \$10,646,000, \$11,033,000, and \$9,993,000 for the fiscal years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively, and are recorded as a component of cost of goods sold.

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Parkdale, Inc. incurs certain accounting and administrative expenses that are allocated to the Company and Mills based upon a weighted average of certain key indicators, including, but not limited to, pounds of yarn sold and net sales. Amounts charged to the Company by Parkdale, Inc., were approximately \$11,476,000, \$10,476,000 and \$11,170,000 for the fiscal years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively and are recorded as a component of general and administrative expenses.

Due to and from Affiliates

Due to and from affiliates as of December 31, 2016 and January 2, 2016, consists of the following:

	2016	2015
Due from Parkdale Mills de Honduras	\$ 47,000	\$ -
Due from U.S. Cotton, LLC	112,000	6,000
Due from affiliates	\$ 159,000	\$ 6,000
Due to Mills and subsidiary	(1,548,000)	(1,385,000)
Due to Parkdale Mills de Honduras	-	(22,000)
Due to D'sky DSC S.R.L.	(22,000)	(21,000)
Due to Parkdale Mills de El Salvador	(10,000)	(84,000)
Due to Parkdale Incorporated	(2,561,000)	(2,830,000)
Due to affiliates	\$ (4,141,000)	\$ (4,342,000)

Amounts due to and from affiliates result from intercompany charges related to inventory purchases, accounts receivable collections, payroll tax payments, and the administrative expense allocation.

Other

The Company sells waste fibers to Henry Fibers, a related party. Total sales amounted to \$12,000, \$785,000, and \$746,000 for the fiscal years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively.

The Company entered into a revolving credit facility with its parent company in fiscal year 2013. See also Note 9.

13. Commitments and Contingencies

Operating Leases

The Company has entered into operating leases for various buildings, vehicles, and office equipment. Future minimum lease payments during the remaining noncancelable lease terms as of December 31, 2016, are as follows:

2017	\$	312,000
2018		21,000
Total minimum lease payments	\$	333,000

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Rent expense for the fiscal years ended December 31, 2016, January 2, 2016, and January 3, 2015, was \$577,000, \$619,000, and \$406,000, respectively.

Purchase and Sales Commitments

At December 31, 2016 and January 2, 2016, the Company had unfulfilled cotton purchase commitments, at varying prices, for approximately 419,953,000 and 550,361,000 pounds of cotton, respectively, to be used in the production process. These contracts are generally effective for approximately one year. At December 31, 2016, January 2, 2016, and January 3, 2015, the Company had unfulfilled yarn sales contracts, at varying prices, with various customers that are not expected to result in any loss to the Company.

Contingencies

The Company is involved in various legal actions and claims arising in the normal course of business. Management believes that the resolution of such matters will not have a material effect on the financial condition, results of operations, or cash flows of the Company.

14. Members' and Stockholders' Equity

The annual net income of Grupo is subject to the Mexican legal requirement that 5% thereof be transferred to a legal reserve each year until the reserve equals 20% of capital stock. This reserve may not be distributed to the stockholders during the existence of Grupo, except in the form of stock dividends. The legal reserve for Grupo has not been met as of December 31, 2016.

15. Subsequent Events

The Company evaluated transactions occurring after December 31, 2016 in accordance with ASC Topic 855, Subsequent Events, through March 28, 2017, which is the date the financial statements were available for issuance.