

DIXIE GROUP INC
Form 10-K
March 08, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 29, 2018

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 0-2585

The Dixie Group, Inc.

(Exact name of registrant as specified in its charter)

Tennessee

(State or other jurisdiction of incorporation of organization)

62-0183370

(I.R.S. Employer Identification No.)

475 Reed Road, Dalton, GA 30720

(Address of principal executive offices and zip code)

(706) 876-5800

(Registrant's telephone number, including area code)

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

Title of Class

Common Stock, \$3.00 par value

Name of each exchange on which registered

NASDAQ Stock Market, LLC

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

Title of class

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 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 Regulations S-T (Section 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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the 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 definition 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 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

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 29, 2018 (the last business day of the registrant's most recently completed fiscal second quarter) was \$30,303,294. The aggregate market value was computed by reference to the closing price of the Common Stock on such date. In making this calculation, the registrant has assumed, without admitting for any purpose, that all executive officers, directors, and holders of more than 10% of a class of outstanding Common Stock, and no other persons, are affiliates. No market exists for the shares of Class B Common Stock, which is neither registered under Section 12 of the Act nor subject to Section 15(d) of the Act.

Indicate the number of shares outstanding of each of the registrant's classes of Common Stock as of the latest practicable date.

Class	Outstanding as of February 22, 2019
Common Stock, \$3.00 Par Value	15,522,588 shares
Class B Common Stock, \$3.00 Par Value	839,304 shares
Class C Common Stock, \$3.00 Par Value	0 shares

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the following document are incorporated by reference:
Proxy Statement of the registrant for annual meeting of shareholders to be held May 1, 2019 (Part III).

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on Form 10-K for
Year Ended December 29, 2018

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FORWARD-LOOKING INFORMATION

This Report contains statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include the use of terms or phrases such as "expects," "estimates," "projects," "believes," "anticipates," "intends," and similar terms and phrases. Such forward-looking statements relate to, among other matters, our future financial performance, business prospects, growth strategies or liquidity. The following important factors may affect our future results and could cause those results to differ materially from our historical results; these factors include, in addition to those "Risk Factors" detailed in Item 1A of this report, and described elsewhere in this document, the cost and availability of capital, raw material and transportation costs related to petroleum price levels, the cost and availability of energy supplies, the loss of a significant customer or group of customers, the ability to attract, develop and retain qualified personnel, materially adverse changes in economic conditions generally in carpet, rug and floorcovering markets we serve and other risks detailed from time to time in our filings with the Securities and Exchange Commission.

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PART I.

Item 1. BUSINESS

General

Our business consists principally of marketing, manufacturing and selling floorcovering products to high-end residential and commercial customers through our various sales forces and brands. We focus exclusively on the upper-end of the floorcovering market where we believe we have strong brands and competitive advantages with our style and design capabilities and customer relationships. Our Fabrica, Masland, and Dixie Home brands have a significant presence in the high-end residential floorcovering markets. Our Atlas and Masland Contract brands participate in the upper-end specified commercial marketplace. Dixie International sells all of our brands outside of the North American market.

Our business is primarily concentrated in areas of the soft floorcovering markets which include broadloom carpet, carpet tiles and rugs. However, over the past few years, there has been a significant shift in the flooring marketplace as hard surface products have grown at a rate much faster than soft surface products. We have responded to this accelerated shift to hard surface flooring by launching several initiatives in both our residential and commercial brands. Our commercial brands offer luxury vinyl flooring (“LVF”) products under the Calibr  brand in the commercial markets. Our residential brands, Dixie Home and Masland Residential, offer Stainmaster® PetProtect™ luxury vinyl flooring. In 2018, our residential brand, Fabrica, began offering a high-end engineered wood line.

We have one reportable segment, Floorcovering, which is comprised of two operating segments, Residential and Commercial. We have aggregated the two operating segments into one reporting segment because they have similar economic characteristics, and the operating segments are similar in all of the following areas: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) the nature of the regulatory environment.

Our Brands

Our brands are well known, highly regarded and complementary; by being differentiated, we offer meaningful alternatives to the discriminating customer.

Fabrica markets and manufactures luxurious residential carpet and custom rugs, at selling prices that we believe are approximately five times the average for the residential soft floorcovering industry. Its primary customers are interior decorators and designers, selected retailers and furniture stores, luxury home builders and manufacturers of luxury motor coaches and yachts. Fabrica is among the leading premium brands in the domestic marketplace and is known for styling innovation and unique colors and patterns. Fabrica consists of extremely high quality carpets and area rugs in both nylon and wool, with a wide variety of patterns and textures. Fabrica is viewed by the trade as the premier quality brand for very high-end carpet and enjoys an established reputation as a styling trendsetter and a market leader in providing both custom and designer products to the very high-end residential sector.

Masland Residential, founded in 1866, markets and manufactures design-driven specialty carpets and rugs for the high-end residential marketplace. In addition, it offers luxury vinyl flooring products to the marketplace it serves. Its residential and commercial broadloom carpet products are marketed at selling prices that we believe are over three times the average for the residential soft floorcovering industry. Its products are marketed through the interior design community, as well as to consumers through specialty floorcovering retailers. Masland Residential has strong brand

recognition within the upper-end residential market. Masland Residential competes through innovative styling, color, product design, quality and service.

Dixie Home provides stylishly designed, differentiated products that offer affordable fashion to residential consumers. Dixie Home markets an array of residential tufted broadloom and rugs to selected retailers and home centers under the Dixie Home and private label brands. In addition, it offers luxury vinyl flooring products to the marketplace it serves. Its objective is to make the Dixie Home brand the choice for styling, service and quality in the more moderately priced sector of the high-end residential market. Its products are marketed at selling prices which we believe average two times the soft floorcovering industry's average selling price.

Atlas | Masland Contract is our combined brand of the former Atlas Carpet Mills and Masland Contract. We strategically re-aligned our business in 2018 by merging the two brands into one cohesive operating unit with a broader array of products but a single management, marketing, back office, manufacturing and sales structure to serve the specified commercial marketplace. Its commercial products are marketed to the architectural and specified design community and directly to commercial end users, as well as to consumers through specialty floorcovering retailers. Atlas | Masland Contract also sells to the hospitality market with both custom designed and running line products. Utilizing computerized yarn placement technology, as well as offerings utilizing our state of the art Infinity tufting technology, this brand provides excellent service and design flexibility to the hospitality market serving upper-end hotels, conference centers and senior living markets. Its broadloom, rug product and luxury vinyl flooring offerings are designed for the interior designer in the upper-end of the hospitality market who appreciates sophisticated texture, color and patterns with excellent service. Atlas | Masland Contract has strong brand recognition within the upper-end contract market, and competes through innovative styling, color, patterns, quality and service.

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Industry

We are a flooring manufacturer in an industry composed of a wide variety of companies from small privately held firms to large multinationals. In 2017, according to the most recent information available, the U.S. floorcovering industry reported \$25.5 billion in sales, up approximately 4.8% over 2016's sales of \$24.3 billion. In 2017, the primary categories of flooring in the U.S., based on sales dollars, were carpet and rug (45%), wood (14%), ceramic tile (14%), luxury vinyl flooring (LVF) (9%), vinyl (6%), stone (6%) and laminate and other (6%). In 2017, the primary categories of flooring in the U.S., based on square feet, were carpet and rug (51%), ceramic tile (14%), vinyl (12%), luxury vinyl flooring (8%), wood (7%), laminate (5%) and stone and other (3%). Each of these categories is influenced by the residential construction, commercial construction, and residential remodeling markets. These markets are influenced by many factors including consumer confidence, spending for durable goods, turnover in housing and the overall strength of the economy.

The carpet and rug category has two primary markets, residential and commercial, with the residential market making up the largest portion of the industry's sales. A substantial portion of industry shipments is made in response to replacement demand. Residential products consist of broadloom carpets and rugs in a broad range of styles, colors and textures. Commercial products consist primarily of broadloom carpet and modular carpet tile for a variety of institutional applications such as office buildings, restaurant chains, schools and other commercial establishments. The carpet industry also manufactures carpet for the automotive, recreational vehicle, small boat and other industries.

The Carpet and Rug Institute (the "CRI") is the national trade association representing carpet and rug manufacturers. Information compiled by the CRI suggests that the domestic carpet and rug industry is comprised of fewer than 100 manufacturers, with a significant majority of the industry's production concentrated in a limited number of manufacturers focused on the lower end of the price curve. We believe that this industry focus provides us with opportunities to capitalize on our competitive strengths in selected markets where innovative styling, design, product differentiation, focused service and limited distribution add value.

Competition

The floorcovering industry is highly competitive. We compete with other carpet and rug manufacturers and other types of floorcoverings. In addition, the industry provides multiple floorcovering surfaces such as luxury vinyl tile and wood. Though soft floorcovering is still the dominant floorcovering surface, it has gradually lost market share to hard floorcovering surfaces over the last 25 years. We believe our products are among the leaders in styling and design in the high-end residential and high-end commercial carpet markets. However, a number of manufacturers produce competitive products and some of these manufacturers have greater financial resources than we do.

We believe the principal competitive factors in our primary floorcovering markets are styling, color, product design, quality and service. In the high-end residential and commercial markets, we compete with various other floorcovering suppliers. Nevertheless, we believe we have competitive advantages in several areas. We have an attractive portfolio of brands that we believe are well known, highly regarded by customers and complementary; by being differentiated, we offer meaningful alternatives to the discriminating customer. We believe our investment in new yarns, such as Stainmaster's® LiveWell™ and PetProtect™, and innovative tufting and dyeing technologies, strengthens our ability to offer product differentiation to our customers. In addition, we have established longstanding relationships with key suppliers, such as the providers of Stainmaster® for which we utilize both branded yarns and luxury vinyl flooring, and significant customers in most of our markets. Finally, our reputation for innovative design excellence and our experienced management team enhance our competitive position. See "Risk Factors" in Item 1A of this report.

Backlog

Sales order backlog is not material to understanding our business, due to relatively short lead times for order fulfillment in the markets for the vast majority of our products.

Trademarks

Our floorcovering businesses own a variety of trademarks under which our products are marketed. Among such trademarks, the names "Fabrica", "Masland", "Dixie Home", "Atlas", "Masland Contract" and "Masland Hospitality" are of greatest importance to our business. We have applied for a trademark on "Atlas | Masland Contract", our new commercial sales force brand. We believe that we have taken adequate steps to protect our interest in all significant trademarks.

Customer and Product Concentration

As a percentage of our net sales, one customer, Lowe's, a mass merchant, accounted for approximately 13% in 2018, 14% in 2017, and 10% in 2016 and as a percentage of our customer's trade accounts receivable, accounted for approximately 34% in 2018 and 31% in 2017. No other customer was more than 10 percent of our sales during the periods presented. During 2018, sales to our top ten customers accounted for approximately 16% of our sales and our top 20 customers accounted for approximately 17% of our sales. We do not make a material amount of sales in foreign countries.

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We do not have any single class of products that accounts for more than 10 percent of our sales. However, sales of our floorcovering products may be classified by significant end-user markets into which we sell, and such information for the past three years is summarized as follows:

	2018	2017	2016
Residential floorcovering products	72 %	68 %	66 %
Commercial floorcovering products	28 %	32 %	34 %

Seasonality

Our sales historically have normally reached their lowest level in the first quarter (approximately 23% of our annual sales), with the remaining sales being distributed relatively equally among the second, third and fourth quarters. Working capital requirements have normally reached their highest levels in the third and fourth quarters of the year.

Environmental

Our operations are subject to federal, state and local laws and regulations relating to the generation, storage, handling, emission, transportation and discharge of materials into the environment. The costs of complying with environmental protection laws and regulations have not had a material adverse impact on our financial condition or results of operations in the past. See "Risk Factors" in Item 1A of this report.

Raw Materials

Our primary raw material is bulk continuous filament for yarn. Nylon is the primary yarn we utilize and, to a lesser extent, wool and polyester yarn is used. Additionally, we utilize polypropylene carpet backing, latex, dyes and chemicals, and man-made topical applications in the construction of our products. Our synthetic yarns are purchased primarily from domestic fiber suppliers and wool is purchased from a number of international sources. Our other raw materials are purchased primarily from domestic suppliers, although the majority of our luxury vinyl tile is sourced outside the United States. Where possible, we pass raw material price increases through to our customers; however, there can be no assurance that price increases can be passed through to customers and that increases in raw material prices will not have an adverse effect on our profitability. See "Risk Factors" in Item 1A of this report. We purchase a significant portion of our primary raw material (nylon yarn) from one supplier. We believe there are other sources of nylon yarn; however, an unanticipated termination or interruption of our supply arrangements could adversely affect our supplies of raw materials and could have a material effect on our operations. See "Risk Factors" in Item 1A of this report.

Utilities

We use electricity as our principal energy source, with oil or natural gas used in some facilities for dyeing and finishing operations as well as heating. We have not experienced any material problem in obtaining adequate supplies of electricity, natural gas or oil. Energy shortages of extended duration could have an adverse effect on our operations, and price volatility could negatively impact future earnings. See "Risk Factors" in Item 1A of this report.

Working Capital

We are required to maintain significant levels of inventory in order to provide the enhanced service levels demanded by the nature of our business and our customers, and to ensure timely delivery of our products. Consistent and dependable sources of liquidity are required to maintain such inventory levels. Failure to maintain appropriate levels

of inventory could materially adversely affect our relationships with our customers and adversely affect our business. See "Risk Factors" in Item 1A of this report.

Employment Level

At December 29, 2018, we employed 1,646 associates in our operations.

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Available Information

Our internet address is www.thedixiegroup.com. We make the following reports filed by us with the Securities and Exchange Commission available, free of charge, on our website under the heading "Investor Relations":

1. annual reports on Form 10-K;
2. quarterly reports on Form 10-Q;
3. current reports on Form 8-K; and
4. amendments to the foregoing reports.

The contents of our website are not a part of this report.

Item 1A. RISK FACTORS

In addition to the other information provided in this Report, the following risk factors should be considered when evaluating the results of our operations, future prospects and an investment in shares of our Common Stock. Any of these factors could cause our actual financial results to differ materially from our historical results, and could give rise to events that might have a material adverse effect on our business, financial condition and results of operations.

The floorcovering industry is sensitive to changes in general economic conditions and a decline in residential or commercial construction activity or corporate remodeling and refurbishment could have a material adverse effect on our business.

The floorcovering industry, in which we participate, is highly dependent on general economic conditions, such as consumer confidence and income, corporate and government spending, interest rate levels, availability of credit and demand for housing. We derive a majority of our sales from the replacement segment of the market. Therefore, economic changes that result in a significant or prolonged decline in spending for remodeling and replacement activities could have a material adverse effect on our business and results of operations.

The floorcovering industry is highly dependent on construction activity, including new construction, which is cyclical in nature. The U.S. and global economies, along with the residential and commercial markets in such economies, can negatively impact the floorcovering industry and our business. Although the impact of a decline in new construction activity is typically accompanied by an increase in remodeling and replacement activity, these activities typically lag during a cyclical downturn. Although the difficult economic conditions have improved since the last cyclical downturn in 2008, there may be additional downturns that could cause the industry to deteriorate in the foreseeable future. A significant or prolonged decline in residential or commercial construction activity could have a material adverse effect on our business and results of operations.

We have significant levels of sales in certain channels of distribution and reduction in sales through these channels could adversely affect our business.

A significant amount of our sales are generated through a certain mass merchant retailer. A significant reduction of sales through this channel could adversely affect our business. Such a shift could occur if this retailer decided to reduce the amount of emphasis on soft surface flooring or determine that our concentration of better goods was not advantageous to their marketing program.

We have significant levels of indebtedness that could result in negative consequences to us.

We have a significant amount of indebtedness relative to our equity. Insufficient cash flow, profitability, or the value of our assets securing our loans could have a material adverse affect on our ability to generate sufficient funds to satisfy the terms of our senior loan agreements and other debt obligations. Additionally, the inability to access debt or equity markets at competitive rates in sufficient amounts to satisfy our obligations could adversely impact our business.

Uncertainty in the credit market or downturns in the economy and our business could affect our overall availability and cost of credit.

Uncertainty in the credit markets could affect the availability and cost of credit. Despite recent improvement in overall economic conditions, market conditions could impact our ability to obtain financing in the future, including any financing necessary to refinance existing indebtedness. The cost and terms of such financing is uncertain. Continued operating losses could affect our ability to continue to access the credit markets under our current terms and conditions. These and other economic factors could have a material adverse effect on demand for our products and on our financial condition and operating results.

If our stock price falls below \$1.00 for an extended time, our common stock may be subject to delisting from The NASDAQ Stock Market.

On January 31, 2019, we received a deficiency notice from NASDAQ stating that we were not in compliance with NASDAQ Marketplace Rule 5550(a)(2) because the bid price of our common stock closed below the required minimum \$1.00 per share for

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the previous 30 consecutive business days. The notice also indicated that, in accordance with Marketplace Rule 5810(c)(3)(A), we have a period of 180 calendar days, until July 30, 2019, to regain compliance with Rule 5550(a)(2), and that, if at any time before July 30, 2019 the bid price of our common stock closes at \$1.00 per share or more for a minimum of 10 consecutive business days, NASDAQ would notify us that we have regained compliance with Rule 5550(a)(2).

Following the initial notice, the NASDAQ has determined that for the 12 consecutive business days from February 4 to February 20, 2019, the closing bid price of our common stock has been at \$1.00 per share or greater. Accordingly, we have regained compliance with Listing Rule 5550(a)(2).

To the extent that we are unable to stay in compliance with the relevant NASDAQ bid price listing rule, there is a risk that our common stock may be delisted from NASDAQ, which would adversely impact liquidity of our common stock and potentially result in even lower bid process for our common stock.

Our stock price has been and could remain volatile, which could further adversely affect the market price of our stock, our ability to raise additional capital and/or cause us to be subject to securities class action litigation.

The market price of our common stock has historically experienced and may continue to experience significant volatility. In 2018, the sales price of our common stock fluctuated from a high of \$4.05 per share in the first quarter of 2018 to a low of \$0.62 per share in the fourth quarter of 2018. Our progress in restructuring our business, our quarterly operating results, our perceived prospects, lack of securities analysts' recommendations or earnings estimates, changes in general conditions in the economy or the financial markets, adverse events related to our strategic relationships, significant sales of our common stock by existing stockholders, and other developments affecting us or our competitors could cause the market price of our common stock to fluctuate substantially. In addition, in recent years, the stock market has experienced significant price and volume fluctuations. This volatility has affected the market prices of securities issued by many companies for reasons unrelated to their operating performance and may adversely affect the price of our common stock. Such market price volatility could adversely affect our ability to raise additional capital. In addition, we may be subject to securities class action litigation as a result of volatility in the price of our common stock, which could result in substantial costs and diversion of management's attention and resources and could harm our stock price, business, prospects, results of operations and financial condition

We face intense competition in our industry, which could decrease demand for our products and could have a material adverse effect on our profitability.

The floorcovering industry is highly competitive. We face competition from a number of domestic manufacturers and independent distributors of floorcovering products and, in certain product areas, foreign manufacturers. Significant consolidation within the floorcovering industry has caused a number of our existing and potential competitors to grow significantly larger and have greater access to resources and capital than we do. Maintaining our competitive position may require us to make substantial additional investments in our product development efforts, manufacturing facilities, distribution network and sales and marketing activities. These additional investments may be limited by our access to capital, as well as restrictions set forth in our credit facilities. Competitive pressures and the accelerated growth of hard surface alternatives, have resulted in decreased demand for our soft floorcovering products and in the loss of market share to hard surface products. As a result, competition from providers of other soft surfaces has intensified and may result in decreased demand for our products. In addition, we face, and will continue to face, competitive pressures on our sales price and cost of our products. As a result of any of these factors, there could be a material adverse effect on our sales and profitability.

If we are unable to anticipate consumer preferences and successfully develop and introduce new, innovative and updated products, we may not be able to maintain or increase our net revenues and profitability.

Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. In addition, long lead times for certain products may make it hard for us to quickly respond to changes in consumer demands. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of flooring products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. Failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales and excess inventory levels, which could have a material adverse effect on our financial condition.

Raw material prices may vary and the inability to either offset or pass on such cost increases or avoid passing on decreases larger than the cost decrease to our customers could have a material adverse affect on our business, results of operations and financial condition.

We require substantial amounts of raw materials to produce our products, including nylon and polyester yarn, as well as wool yarns, synthetic backing, latex, and dyes. Substantially all of the raw materials we require are purchased from outside sources. The prices of raw materials and fuel-related costs vary significantly with market conditions. The fact that we source a significant amount of raw materials means that several months of raw materials and work in process are moving through our supply chain at any point in time. We are sourcing the majority of our new luxury vinyl flooring and wood product lines from overseas. We are not able to predict whether commodity costs will significantly increase or decrease in the future. If commodity costs increase in the future and we are

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not able to reduce or eliminate the effect of the cost increases by reducing production costs or implementing price increases, our profit margins could decrease. If commodity costs decline, we may experience pressures from customers to reduce our selling prices. The timing of any price reductions and decreases in commodity costs may not align. As a result, our margins could be affected.

Unanticipated termination or interruption of our arrangements with third-party suppliers of nylon yarn could have a material adverse effect on us.

Nylon yarn is the principal raw material used in our floorcovering products. A significant portion of such yarn is purchased from one supplier. Our yarn supplier is one of the leading fiber suppliers within the industry and is the exclusive supplier of certain innovative branded fiber technology upon which we rely. We believe our offerings of this innovative fiber technology contribute materially to the competitiveness of our products. While we believe there are other sources of nylon yarns, an unanticipated termination or interruption of our current supply of branded nylon yarn could have a material adverse effect on our ability to supply our product to our customers and have a material adverse impact on our competitiveness if we are unable to replace our nylon supplier with another supplier that can offer similar innovative and branded fiber products. An interruption in the supply of these or other raw materials or sourced products used in our business or in the supply of suitable substitute materials or products would disrupt our operations, which could have a material adverse effect on our business. We continually evaluate our sources of yarn for competitive costs, performance characteristics, brand value, and diversity of supply.

We rely on information systems in managing our operations and any system failure or deficiencies of such systems may have an adverse effect on our business.

Our businesses rely on sophisticated systems to obtain, rapidly process, analyze and manage data. We rely on these systems to, among other things, facilitate the purchase, manufacture and distribution of our products; receive, process and ship orders on a timely basis; and to maintain accurate and up-to-date operating and financial data for the compilation of management information. We rely on our computer hardware, software and network for the storage, delivery and transmission of data to our sales and distribution systems, and certain of our production processes are managed and conducted by computer. Any damage by unforeseen events or system failure which causes interruptions to the input, retrieval and transmission of data or increase in the service time, whether caused by human error, natural disasters, power loss, computer viruses, intentional acts of vandalism, various forms of cybercrimes including and not limited to hacking, intrusions and malware or otherwise, could disrupt our normal operations. There can be no assurance that we can effectively carry out our disaster recovery plan to handle the failure of our information systems, or that we will be able to restore our operational capacity within sufficient time to avoid material disruption to our business. The occurrence of any of these events could cause unanticipated disruptions in service, decreased customer service and customer satisfaction and harm to our reputation, which could result in loss of customers, increased operating expenses and financial losses. Any such events could in turn have a material adverse effect on our business, financial condition, results of operations, and prospects.

The long-term performance of our business relies on our ability to attract, develop and retain qualified personnel.

To be successful, we must attract, develop and retain qualified and talented personnel in management, sales, marketing, product design and operations. We compete with other floorcovering companies for these employees and invest resources in recruiting, developing, motivating and retaining them. The failure to attract, develop, motivate and retain key employees could negatively affect our business, financial condition and results of operations.

We are subject to various governmental actions that may interrupt our supply of materials.

We import most of our luxury vinyl flooring ("LVF"), some of our wood offering, some of our rugs and broadloom offerings. Though currently a small part of our business, the growth in LVF products is an important product offering to provide our customers a complete selection of flooring alternatives. Recently there have been trade proposals that threatened these product categories with added tariffs which would make our offerings less competitive compared to those manufactured in other countries or produced domestically. These proposals, if enacted, or if expanded, or imposed for a significant period of time, would materially interfere with our ability to successfully enter into these product categories and could have a material adverse effect upon the company's cost of goods and results of operations.

We may experience certain risks associated with internal expansion, acquisitions, joint ventures and strategic investments.

We continually look for strategic and tactical initiatives, including internal expansion, acquisitions and investment in new products, to strengthen our future and to enable us to return to sustained growth and to achieve profitability. Growth through expansion and acquisition involves risks, many of which may continue to affect us after the acquisition or expansion. An acquired company, operation or internal expansion may not achieve the levels of revenue, profitability and production that we expect. The combination of an acquired company's business with ours involves risks. Further, internally generated growth that involves expansion involves risks as well. Such risks include the integration of computer systems, alignment of human resource policies and the retention of valued talent. Reported earnings may not meet expectations because of goodwill and intangible asset impairment, other asset impairments, increased interest costs and issuance of additional securities or debt as a result of these acquisitions. We may also face challenges in consolidating functions and integrating our organizations, procedures, operations and product lines in a timely and efficient manner.

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The diversion of management attention and any difficulties encountered in the transition and integration process could have a material adverse effect on our revenues, level of expenses and operating results. Failure to successfully manage and integrate an acquisition with our existing operations or expansion of our existing operations could lead to the potential loss of customers of the acquired or existing business, the potential loss of employees who may be vital to the new or existing operations, the potential loss of business opportunities or other adverse consequences that could have a material adverse effect on our business, financial condition and results of operations. Even if integration occurs successfully, failure of the expansion or acquisition to achieve levels of anticipated sales growth, profitability or productivity, or otherwise perform as expected, may have a material adverse effect on our business, financial condition and results of operations.

We are subject to various environmental, safety and health regulations that may subject us to costs, liabilities and other obligations, which could have a material adverse effect on our business, results of operations and financial condition.

We are subject to various environmental, safety and health and other regulations that may subject us to costs, liabilities and other obligations which could have a material adverse effect on our business. The applicable requirements under these laws are subject to amendment, to the imposition of new or additional requirements and to changing interpretations of agencies or courts. We could incur material expenditures to comply with new or existing regulations, including fines and penalties and increased costs of our operations. Additionally, future laws, ordinances, regulations or regulatory guidelines could give rise to additional compliance or remediation costs that could have a material adverse effect on our business, results of operations and financial condition. For example, producer responsibility regulations regarding end-of-life disposal could impose additional cost and complexity to our business.

Various federal, state and local environmental laws govern the use of our current and former facilities. These laws govern such matters as:

- Discharge to air and water;
- Handling and disposal of solid and hazardous substances and waste, and
- Remediation of contamination from releases of hazardous substances in our facilities and off-site disposal locations.

Our operations also are governed by laws relating to workplace safety and worker health, which, among other things, establish noise standards and regulate the use of hazardous materials and chemicals in the workplace. We have taken, and will continue to take, steps to comply with these laws. If we fail to comply with present or future environmental or safety regulations, we could be subject to future liabilities. However, we cannot ensure that complying with these environmental or health and safety laws and requirements will not adversely affect our business, results of operations and financial condition.

We may be exposed to litigation, claims and other legal proceedings in the ordinary course of business relating to our products or business, which could have a material adverse effect on our business, results of operations and financial condition.

In the ordinary course of business, we are subject to a variety of work-related and product-related claims, lawsuits and legal proceedings, including those relating to product liability, product warranty, product recall, personal injury, and other matters that are inherently subject to many uncertainties regarding the possibility of a loss to our business. Such matters could have a material adverse effect on our business, results of operations and financial condition if we are unable to successfully defend against or resolve these matters or if our insurance coverage is insufficient to satisfy any judgments against us or settlements relating to these matters. Although we have product liability insurance, the policies may not provide coverage for certain claims against us or may not be sufficient to cover all possible

liabilities. Further, we may not be able to maintain insurance at commercially acceptable premium levels. Additionally, adverse publicity arising from claims made against us, even if the claims are not successful, could adversely affect our reputation or the reputation and sales of our products.

Our business operations could suffer significant losses from natural disasters, catastrophes, fire or other unexpected events.

Many of our business activities involve substantial investments in manufacturing facilities and many products are produced at a limited number of locations. These facilities could be materially damaged by natural disasters, such as floods, tornadoes, hurricanes and earthquakes, or by fire or other unexpected events such as adverse weather conditions or other disruptions to our facilities, supply chain or our customer's facilities. We could incur uninsured losses and liabilities arising from such events, including damage to our reputation, and/or suffer material losses in operational capacity, which could have a material adverse impact on our business, financial condition and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

The following table lists our facilities according to location, type of operation and approximate total floor space as of February 22, 2019:

Location	Type of Operation	Approximate Square Feet
Administrative:		
Saraland, AL	Administrative	29,000
Commerce, CA*	Administrative	21,800
Santa Ana, CA	Administrative	4,000
Calhoun, GA	Administrative	10,600
Dalton, GA*	Administrative	50,800
	Total Administrative	116,200
Manufacturing and Distribution:		
Atmore, AL	Carpet Manufacturing, Distribution	610,000
Roanoke, AL	Carpet Yarn Processing	204,000
Saraland, AL	Carpet, Rug and Tile Manufacturing, Distribution	384,000
Commerce, CA*	Carpet Manufacturing, Distribution	232,800
Porterville, CA*	Carpet Yarn Processing	249,000
Santa Ana, CA	Carpet and Rug Manufacturing, Distribution	200,000
Adairsville, GA	Samples and Rug Manufacturing, Distribution	292,000
Calhoun, GA *	Distribution	99,000
Calhoun, GA	Carpet Dyeing & Processing	193,300
Eton, GA	Carpet Manufacturing, Distribution	408,000
Dalton, GA*	Samples Warehouse and Distribution	40,000
	Total Manufacturing and Distribution	2,912,100
* Leased properties	TOTAL	3,028,300

In addition to the facilities listed above, we lease a small amount of office space in various locations.

In our opinion, our manufacturing facilities are well maintained and our machinery is efficient and competitive. Operations of our facilities generally vary between 120 and 168 hours per week. Substantially all of our owned properties are subject to mortgages, which secure the outstanding borrowings under our senior credit facilities.

Item 3. LEGAL PROCEEDINGS

We have been sued, together with the 3M Company and approximately 30 other carpet manufacturers, by the Gadsden (Alabama) Water Works in the circuit court of Etowah County Alabama [The Water Works and Sewer Board of the City of Gadsden v. 3M Company, et al, civil action No. 31-CV-2016-900676.00] and by the Town of Centre (Alabama) Water Works in the circuit court of Cherokee County Alabama [The Water Works and Sewer Board of the Town of Centre v. 3M Company, et al, civil action No. 13-CV-2017-900049.00]. Both cases seek monetary damages and injunctive relief related to the use of certain chemical compounds in the manufacture and finishing of carpet products “in and around Dalton Georgia.” On motion of the defendants, the cases were removed to the U.S. District Court for the Northern District of Alabama (Middle Division) Case No. 4:16-CV-01755-SGC and Case No. 4:17-CV-01026-KOB. Subsequently, the Gadsden Water Works filed a motion to have the case remanded back to the

state court and such motion has been granted. Currently, we have joined several other co-defendants in filing a Petition for Writ of Mandamus with the Alabama Supreme Court asking for an Order directing the trial court to grant our and other codefendants' motions to dismiss the Alabama-filed actions for lack of personal jurisdiction. The Petitions have been consolidated by the Alabama Supreme Court with the Town of Centre (Alabama) matter (described above). The Petitions are still pending and there is no statutory deadline for the court to issue a decision. The lawsuits allege that perflourinated compounds ("PFC"), perflourinated acid ("PFOA") and perfluorooctane sulfonate ("PFOS") manufactured by 3M were used in certain finishing and treatment processes by the defendants and, as a consequence of such use, were subsequently either discharged into or leached into the water systems around Dalton, Georgia. The Complaints seek damages that exceed \$10, but are otherwise unspecified in amount in addition to injunctive relief and punitive damages. We intend to defend the matters vigorously and are unable to estimate the potential exposure to loss, if any, at this time.

On November 16, 2018 the Superior Court of the State of California granted preliminary approval of a class action settlement in the matter of Carlos Garcia v. Fabrica International, Inc. et al Orange County Superior Court Case No. 30-2017-00949461-CU-OE-

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CXC. The court further approved the procedures for Settlement Class Members to opt-out of or object to the Settlement. The terms of the settlement provide that Fabrica, a wholly owned subsidiary of ours, has agreed to pay \$1,514,000 (the "Gross Settlement Amount") to fully resolve all claims in the Lawsuit, including payments to Settlement Class Members, Class Counsel's attorneys' fees and expenses, settlement administration costs, and the Class Representative's Service Award. The amount of the proposed settlement was recorded during the quarter ended June 30, 2018. The deadline for class members to opt-out was February 1, 2019. The deadline for the plaintiff to file a motion for final approval of the class action settlement is March 29, 2019. The final fairness hearing is scheduled for April 12, 2019.

We are one of multiple parties to three lawsuits filed in Madison County Illinois, styled Brenda Bridgeman, Individually and as Special Administrator of the Estate of Robert Bridgeman, Deceased, vs. American Honda Motor Co., Inc., f/k/a Metropolitan Life Insurance Co., et al No. 15-L-374, styled Charles Anderson, Pltf., vs. 3M Company, et al, No. 17-L-525 and styled Danny Atkins and Pamela Atkins, Pltfs., vs. Aurora Pump Company, et al. No. 18-L-2. All three lawsuits entail a claim for damages to be determined in excess of \$50,000 filed on behalf of either a former employee or the estate of an individual which alleges that the deceased contracted mesothelioma as a result of exposure to asbestos while employed by us. Discovery in each matter is ongoing, and a tentative trial date has been set for one of the cases. We have denied liability, are defending the matters vigorously and are unable to estimate our potential exposure to loss, if any, at this time. In August of 2017, the lawsuit styled Sandra D. Watts, Individually and as Special Administrator of the Estate of Dianne Averett, Deceased vs. 4520 Corp., Inc. f/k/a Benjamin F. Shaw Company, et al No. 12-L-2032 was placed in the category of "special closed with settlements and bankruptcy claims pending" to all remaining defendants. In March 2018, the lawsuit styled Charles Anderson, Individually and as Special Administrator of the Estate of Charles Anderson, Deceased vs. 3M Company, et al, No. 17-L-525 was dismissed without prejudice. In October 2018, the lawsuit styled Danny Atkins and Pamela Atkins, Pltfs., vs. Aurora Pump Company, et al. No. 18-L-2 was dismissed without prejudice.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Pursuant to instruction G of Form 10-K the following is included as an unnumbered item to PART I.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, positions and offices held by the executive officers of the registrant as of February 22, 2019, are listed below along with their business experience during the past five years.

Name, Age and Position	Business Experience During Past Five Years
Daniel K. Frierson, 77 Chairman of the Board, and Chief Executive Officer, Director	Director since 1973, Chairman of the Board since 1987 and Chief Executive Officer since 1980. He is the Chairman of the Company's Executive Committee. He is past Chairman of The Carpet and Rug Institute. He serves as Director of Astec Industries, Inc. headquartered in Chattanooga, Tennessee.
D. Kennedy Frierson, Jr., 51 Vice President and Chief Operating Officer, Director	Director since 2012 and Vice President and Chief Operating Officer since August 2009. Vice President and President Masland Residential from February 2006 to July 2009. President Masland Residential from December 2005 to January 2006. Executive Vice President and General Manager, Dixie Home, 2003 to 2005. Business Unit Manager, Bretlin, 2002 to 2003.
Jon A. Faulkner, 58 Vice President and Chief Financial Officer	Vice President and Chief Financial Officer since October 2009. Vice President of Planning and Development from February 2002 to September 2009. Executive Vice President of Sales and Marketing for Steward, Inc. from 1997 to 2002.
Thomas M. Nuckols, 51 Vice President and President, Dixie Residential	Vice President and President of Dixie Residential since November 2017. Executive Vice President, Dixie Residential from February 2017 to November 2017. Dupont/Invista, from 1989 to 2017, Senior Director of Mill Sales and Product Strategy from 2015 to 2017.
E. David Hobbs, 67 Vice President and President, Dixie Commercial	Vice President and President of Dixie Commercial since October 2017. President, Masland Contract from September 2016 to October 2017. Executive President of Operations, Masland Contract from 2012 to September 2016. Vice President of Planning, Mohawk Industries from 2010 to 2011, Interface Americas from 1984 to 2010, President, Interface Americas from 2005 to 2009.
W. Derek Davis, 68 Vice President, Human Resources and Corporate Secretary	Vice President of Human Resources since January 1991 and Corporate Secretary since January 2016. Corporate Employee Relations Director, 1988 to 1991.

The executive officers of the registrant are generally elected annually by the Board of Directors at its first meeting held after each annual meeting of our shareholders.

PART II.

Item MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock trades on the NASDAQ Global Market under the symbol DXYN. No market exists for our Class B Common Stock.

As of February 22, 2019, the total number of holders of our Common Stock was approximately 2,800 including an estimated 2,400 shareholders who hold our Common Stock in nominee names. The total number of holders of our Class B Common Stock was 10.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

Fiscal Month Ending	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares That May Yet Be Purchased Under Plans or Programs
November 3, 2018	—	\$	—	
December 1, 2018	—	—	—	
December 29, 2018	—	—	—	
Three Fiscal Months Ended December 29, 2018	—	\$	—	\$ 2,170,597

Quarterly Financial Data, Dividends and Price Range of Common Stock

Following are quarterly financial data, dividends and price range of Common Stock for the four quarterly periods in the years ended December 29, 2018 and December 30, 2017. Due to rounding, the totals of the quarterly information for each of the years reflected below may not necessarily equal the annual totals. There is a restriction on the payment of dividends under our revolving credit facility and we have not paid any dividends in the years ended 12/29/2018 and 12/30/17.

THE DIXIE GROUP, INC.

QUARTERLY FINANCIAL DATA, DIVIDENDS AND PRICE RANGE OF
COMMON STOCK

(unaudited) (dollars in thousands, except per share data)

2018	1ST	2ND	3RD	4TH
Net sales	\$98,858	\$106,438	\$101,562	\$98,175
Gross profit	21,580	25,144	21,887	18,380
Operating loss	(1,515)	(355)	(1,179)	(12,765)
Loss from continuing operations	(2,884)	(1,972)	(2,922)	(13,700)
Income (loss) from discontinued operations	(23)	157	(40)	1
Net loss	\$(2,907)	\$(1,815)	\$(2,962)	\$(13,699)
Basic earnings (loss) per share:				
Continuing operations	\$(0.18)	\$(0.13)	\$(0.19)	\$(0.87)
Discontinued operations	(0.00)	0.01	(0.00)	0.00
Net loss	\$(0.18)	\$(0.12)	\$(0.19)	\$(0.87)
Diluted earnings (loss) per share:				
Continuing operations	\$(0.18)	\$(0.13)	\$(0.19)	\$(0.87)
Discontinued operations	(0.00)	0.01	(0.00)	0.00
Net loss	\$(0.18)	\$(0.12)	\$(0.19)	\$(0.87)

Common Stock Prices:

High	\$4.05	\$3.27	\$2.40	\$1.85
Low	2.60	2.20	1.40	0.62

2017	1ST	2ND	3RD	4TH
Net sales	\$97,541	\$107,187	\$102,650	\$105,084
Gross profit	25,161	28,426	24,857	22,769
Operating income (loss)	628	3,179	767	(608)
Income (loss) from continuing operations	(575)	1,226	(547)	(9,427)
Loss from discontinued operations	(29)	(123)	(11)	(69)
Net income (loss)	\$(604)	\$1,103	\$(558)	\$(9,496)
Basic earnings (loss) per share:				
Continuing operations	\$(0.04)	\$0.08	\$(0.03)	\$(0.60)
Discontinued operations	(0.00)	(0.01)	(0.00)	(0.00)
Net income (loss)	\$(0.04)	\$0.07	\$(0.03)	\$(0.60)
Diluted earnings (loss) per share:				
Continuing operations	\$(0.04)	\$0.08	\$(0.03)	\$(0.60)
Discontinued operations	(0.00)	(0.01)	(0.00)	(0.00)
Net income (loss)	\$(0.04)	\$0.07	\$(0.03)	\$(0.60)

Common Stock Prices:

High	\$3.95	\$5.21	\$4.75	\$4.30
Low	3.35	3.30	3.75	3.40

Shareholder Return Performance Presentation

We compare our performance to two different industry indices published by Dow Jones, Inc. The first of these is the Dow Jones US Furnishings Index, which is composed of publicly traded companies classified by Dow Jones in the furnishings industry. The second is the Dow Jones US Building Materials & Fixtures Index, which is composed of publicly traded companies classified by Dow Jones in the building materials and fixtures industry.

In accordance with SEC rules, set forth below is a line graph comparing the yearly change in the cumulative total shareholder return on our Common Stock against the total return of the Standard & Poor's Small Cap 600 Stock Index, plus both the Dow Jones US Furnishings Index and the Dow Jones US Building Materials & Fixtures Index, in each case for the five year period ended December 31, 2018. The comparison assumes that \$100.00 was invested on December 31, 2013, in our Common Stock, the S&P Small Cap 600 Index, and each of the two Peer Groups, and assumes the reinvestment of dividends.

The foregoing shareholder performance presentation shall not be deemed "soliciting material" or to be "filed" with the Commission subject to Regulation 14A, or subject to the liabilities of Section 18 of the Exchange Act.

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Item 6. SELECTED FINANCIAL DATA

The Dixie Group, Inc.
Historical Summary
(dollars in thousands, except share and per share data)

FISCAL YEARS	2018 (1)	2017 (2)	2016 (3)	2015 (4)(5)	2014 (6)
OPERATIONS					
Net sales	\$405,033	\$412,462	\$397,453	\$422,483	\$406,588
Gross profit	86,991	101,213	95,425	106,230	95,497
Operating income (loss)	(15,816)	3,947	(3,436)	1,882	(5,584)
Income (loss) from continuing operations before taxes	(22,310)	(1,813)	(8,829)	(2,992)	1,726
Income tax provision (benefit)	(831)	7,509	(3,622)	(714)	1,053
Income (loss) from continuing operations	(21,479)	(9,322)	(5,207)	(2,278)	673
Depreciation and amortization	12,653	12,947	13,515	14,119	12,850
Dividends	—	—	—	—	—
Capital expenditures	4,052	12,724	4,904	6,826	9,492
Assets purchased under capital leases & notes, including deposits utilized and accrued purchases	389	859	427	5,403	23,333
FINANCIAL POSITION					
Total assets	\$252,778	\$283,907	268,987*	298,218*	290,447*
Working capital	96,534	105,113	81,727	98,632	100,602
Long-term debt	120,251	123,446	98,256	115,907	117,153
Stockholders' equity	58,984	79,263	87,122	90,804	92,977
PER SHARE					
Income (loss) from continuing operations:					
Basic	\$(1.36)	\$(0.59)	\$(0.33)	\$(0.15)	\$0.03
Diluted	(1.36)	(0.59)	(0.33)	(0.15)	0.03
Dividends:					
Common Stock	—	—	—	—	—
Class B Common Stock	—	—	—	—	—
Book value	3.60	4.91	5.40	5.67	5.90
GENERAL					
Weighted-average common shares outstanding:					
Basic	15,763,890	15,698,915	15,638,112	15,535,980	14,381,601
Diluted	15,763,890	15,698,915	15,638,112	15,535,980	14,544,073
Number of shareholders (7)	2,800	2,800	3,000	3,000	3,000
Number of associates	1,646	1,930	1,746	1,822	1,740

*These periods do not have prior period adoption adjustment or the right to return asset for the ASC 606 adoption.

(1) 2018 results include expenses of \$3,167 for facility consolidation and severance expenses and \$6,709 for the impairment of tangible and intangible assets.

(2) Includes expenses of \$636 for facility consolidation and severance expenses in 2017.

(3) Includes expenses of \$1,456, or \$859 net of tax, for facility consolidation expenses in 2016.

(4) Includes expenses of \$2,946, or \$1,915 net of tax, for facility consolidation expenses in 2015.

(5) Includes the results of operations of Atlas Carpet Mills, Inc. and Burtco Enterprises, Inc. subsequent to their acquisitions on March 19, 2014 and September 22, 2014, respectively.

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Includes expenses of \$5,514, or \$3,364 net of tax, for facility consolidation expenses, \$1,133, or \$691 net of tax, (6) for impairment of assets and income of \$11,110, or \$6,777 net of tax, for bargain purchases on the acquisitions of Atlas Carpet Mills and Burtco Enterprises.

The approximate number of record holders of our Common Stock for 2014 through 2018 includes Management's (7) estimate of shareholders who held our Common Stock in nominee names as follows: 2014 - 2,550 shareholders; 2015 - 2,550 shareholders; 2016 - 2,600 shareholders; 2017 - 2,400 shareholders; 2018 - 2,400 shareholders.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report.

OVERVIEW

Our business consists principally of marketing, manufacturing and selling floorcovering products to high-end residential and commercial customers through our various sales forces and brands. We focus exclusively on the upper-end of the floorcovering market where we believe we have strong brands and competitive advantages with our style and design capabilities and customer relationships. Our Fabrica, Masland, and Dixie Home brands have a significant presence in the high-end residential floorcovering markets. Our Atlas | Masland Contract brand participates in the upper-end specified commercial marketplace. Dixie International sells all of our brands outside of the North American market.

Our business is primarily concentrated in areas of the soft floorcovering markets which include broadloom carpet, carpet tiles and rugs. However, over the past few years, there has been a significant shift in the flooring marketplace as hard surface products have grown at a rate much faster than soft surface products. We have responded to this accelerated shift to hard surface flooring by launching several initiatives in both our residential and commercial brands. Our commercial brands offer Luxury Vinyl Flooring ("LVF") products under the Calibré brand in the commercial markets. Our residential brands, Dixie Home and Masland Residential, offer Stainmaster® PetProtect™ Luxury Vinyl Flooring and our premium residential brand, Fabrica, offers a high-end engineered wood line. For 2019 we are building on the momentum we gained by tripling our residential hard surface business in 2018 with the launch of TruCor™, our new solid polymer core or "SPC" Luxury Vinyl Flooring line. This latest addition to our rigid core Luxury Vinyl Flooring offering is designed to create an extremely durable and waterproof Luxury Vinyl Flooring product with a broader range of price points to meet the needs of various consumers. To facilitate this growth, in 2019 we are expanding our distribution of hard surface products to our west coast distribution center as well as our east coast service center.

During 2018, our net sales decreased 1.8% compared with 2017. Sales of residential products increased 3.6% in 2018 versus 2017. Residential soft surface sales were up 1.4% in 2018 as compared to 2017, while, we estimate, the industry was up in the low to mid-single digits. Residential hard surface sales tripled in 2018 relative to sales in 2017. We anticipate the residential housing market, though having slowed recently, will have steady but moderate growth over the next several years. Commercial product sales decreased 13.2% during 2018. Soft surface sales of commercial products were down 19.5%, while, we believe, the industry was down in the mid-single digits. We anticipate the commercial market to be relatively flat in 2019.

In 2018, we had an operating loss of \$15.8 million compared with an operating income of \$3.9 million in 2017. The reduced sales volume in 2018 adversely affected our gross profit as we under absorbed our costs since we had increased our capacity anticipating higher volume production. In addition, we had rising raw material costs which, passed on to our customers through higher prices, were recovered after we experienced such cost increases. The majority of our higher costs were in the first and fourth quarters of the year as we suffered with reduced demand in those time periods. We reduced plant running schedules in the fourth quarter to reduce inventories to a more appropriate level. We incurred charges during the year totaling \$14.1 million comprised of \$2.7 million in inventory write-downs, \$3.2 million in restructuring charges, \$6.7 million in asset impairments, including the write-off of goodwill and intangibles, and a \$1.5-million-dollar charge for settlement of a class action litigation. Our debt declined by \$5.2 million over the course of 2018. To offset those higher costs, we continued the implementation of our previously announced Profit Improvement Plan ("the Plan"). The Plan, begun in the fourth quarter of 2017, resulted in the reduction of 284 associates during 2018 and is anticipated to result in the reduction of approximately 330 associates by the end of the first quarter of 2019.

Expenses related to the Plan totaled approximately \$9.2 million in 2018. The Plan expenses included inventory write downs, restructuring costs, and asset impairments as we re-configured our commercial business and right sized our residential manufacturing operations for lower unit demand. Total cost reductions as a result of the Plan are expected to be over \$17 million on an annual basis once fully implemented in 2019. We began the structural consolidation of our commercial business with the closure of our Chickamauga tufting operation as we moved the equipment to other facilities. This plant closure, complete at the end of 2018, lowered our cost and improved our response time to this segment of the marketplace. We began the process of exiting our Commerce, California Atlas tufting facilities this past fall and will be completely out of those commercial tufting operations by the end of the first quarter of 2019. The bulk of the Atlas equipment was transferred to our Atmore, Alabama commercial tufting operation with various other items moved to our Santa Ana, California and Eton, Georgia operations. We moved our commercial rug operation and commercial samples support function from California to our Saraland facility near Mobile, Alabama. We reduced our staffing to better match production to meet our demand in our Atmore, Eton, Adairsville and Roanoke facilities as we were able to take advantage of the increased productivity of our associates in these operations. In addition to the physical movement of equipment and inventory, we consolidated our commercial design functions in Saraland as well as consolidated our entire sales support functions. Our sales forces were merged to create Atlas | Masland Contract, now equipped with a much broader product line and providing modular carpet tile, broadloom carpet, luxury vinyl flooring, and commercial wool and nylon rugs. This combined sales force has the added benefit of not only a broad product line but distinct design capabilities in custom products as well.

In the fourth quarter of 2018, our testing of goodwill indicated a full impairment of the value of the asset. In accordance with the results of our tests the value of the goodwill asset was written off to asset impairment. The amount of the adjustment was \$3.4 million.

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NASDAQ NOTICE

On January 31, 2019, we received a deficiency notice from NASDAQ stating that we no longer comply with NASDAQ Marketplace Rule 5550(a)(2) because the bid price of our common stock closed below the required minimum \$1.00 per share for the previous 30 consecutive business days. The notice also indicated that, in accordance with Marketplace Rule 5810(c)(3)(A), we have a period of 180 calendar days, until July 30, 2019, to regain compliance with Rule 5550(a)(2). If at any time before July 30, 2019 the bid price of our common stock closes at \$1.00 per share or more for a minimum of 10 consecutive business days, NASDAQ will notify us that we have regained compliance with Rule 5550(a)(2). To the extent that we are unable to resolve the listing deficiency, there is a risk that our common stock may be delisted from NASDAQ, which would adversely impact liquidity of our common stock and potentially result in even lower bid prices for our common stock.

Since the initial notice, the NASDAQ has determined that for the 12 consecutive business days from February 4 to February 20, 2019, the closing bid price of our common stock has been at \$1.00 per share or greater. Accordingly, we have regained compliance with Listing Rule 5550(a)(2) and this matter is now closed.

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RESULTS OF OPERATIONS

Fiscal Year Ended December 29, 2018 Compared with Fiscal Year Ended December 30, 2017

	Fiscal Year Ended (amounts in thousands)						Increase (Decrease)	% Change
	December 29, 2018	% of Net Sales	December 30, 2017	% of Net Sales				
Net sales	\$405,033	100.0 %	\$412,462	100.0 %	\$ (7,429)	(1.8)%		
Cost of sales	318,042	78.5 %	311,249	75.5 %	6,793	2.2 %		
Gross profit	86,991	21.5 %	101,213	24.5 %	(14,222)	(14.1)%		
Selling and administrative expenses	92,473	22.8 %	96,189	23.3 %	(3,716)	(3.9)%		
Other operating expense, net	458	0.1 %	441	0.1 %	17	3.9 %		
Facility consolidation and severance expenses, net	3,167	0.8 %	636	0.2 %	2,531	398.0 %		
Impairment of assets	6,709	1.7 %	—	— %	6,709	— %		
Operating income (loss)	(15,816)	(3.9)%	3,947	0.9 %	(19,763)	(500.7)%		
Interest expense	6,491	1.6 %	5,739	1.4 %	752	13.1 %		
Other expense, net	3	— %	21	— %	(18)	(85.7)%		
Loss before taxes	(22,310)	(5.5)%	(1,813)	(0.5)%	(20,497)	1,130.6 %		
Income tax provision (benefit)	(831)	(0.2)%	7,509	1.8 %	(8,340)	(111.1)%		
Loss from continuing operations	(21,479)	(5.3)%	(9,322)	(2.3)%	(12,157)	130.4 %		
Income (Loss) from discontinued operations	95	— %	(233)	(0.1)%	328	(140.8)%		
Net loss	\$(21,384)	(5.3)%	\$(9,555)	(2.4)%	\$(11,829)	123.8 %		

Net Sales. Net sales for the year ended December 29, 2018 were \$405.0 million compared with \$412.5 million in the year-earlier period, a decrease of 1.8% for the year-over-year comparison. Sales of residential floorcovering products were up 3.6% and sales of commercial floorcovering products decreased 13.2%. The decrease in commercial net sales was due to distractions caused by the restructuring of our commercial operations and sales force during 2018.

Gross Profit. Gross profit, as a percentage of net sales, decreased 3.0 percentage points in 2018 compared with 2017. Gross profit in 2018 was negatively impacted by inventory write downs of \$2.7 million taken during the year as part of our Profit Improvement Plan.

Selling and Administrative Expenses. Selling and administrative expenses were \$92.5 million in 2018 compared with \$96.2 million in 2017, or a decrease of .5% as a percentage of sales. The improved results in the 2018 selling expenses are the result of changes made as part of our Profit Improvement Plan.

Other Operating Expense, Net. Net other operating expense was an expense of \$458 thousand in 2018 compared with expense of \$441 thousand in 2017.

Facility Consolidation and Severance Expenses, Net. Facility consolidation expenses were \$3.2 million in 2018 compared with \$636 thousand in the year-earlier period. Facility consolidation expenses increased in 2018 as we continued our Profit Improvement Plan, announced in 2017, which includes the consolidation of our two commercial brands, consolidation of commercial manufacturing operations and sales forces, and an overall review of corporate wide operations and functions. As a result of this plan, we incurred expenses of \$3.2 million during 2018 primarily

related to facility consolidation expenses and severance costs.

Asset Impairments. The asset impairments recorded in 2018 were \$6.7 million. There were no asset impairment expenses in 2017. The asset impairments incurred in 2018 included the impairment of fixed assets as part of our Profit Improvement Plan (\$1.2 million). We also incurred intangible asset impairments (\$2.1 million) and goodwill impairment (\$3.4 million).

Operating Income (Loss). Operations reflected an operating loss of \$15.8 million in 2018 compared with an operating income of \$3.9 million in 2017. The operating results for 2018 were impacted by the lower sales volume, settlement of a class action lawsuit, and facility consolidation, asset impairments, and severance costs related to the Profit Improvement Plan.

Interest Expense. Interest expense increased \$752 thousand in 2018 principally due to higher levels of debt and higher rates than a year ago.

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Income Tax Provision (Benefit). Our effective income tax rate was a benefit of 3.72% in 2018. The benefit relates to certain federal and state credits and also includes a benefit for the reduction of certain indefinite lived assets not covered by our valuation allowance. In 2018 we increased our valuation allowance by \$4 million related to our net deferred tax asset and specific state net operating loss and state credit carryforwards.

On December 22, 2017, the President signed the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act, among other things, lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018.

The income tax expense for 2017 was \$7.5 million, which included a charge of \$1.4 million related to the re-measurement of certain net deferred tax assets using the lower U.S. corporate income tax rate and a charge of \$6.4 million to increase our valuation allowance related to our net deferred tax asset. The majority of the increase in the valuation allowance is related to the revised treatment of net operating losses under the Tax Act. Absent the impact of the Tax Act, our effective income tax benefit rate for 2017 would have been 36.4%.

Net Loss. Continuing operations reflected a loss of \$21.5 million, or \$1.36 per diluted share in 2018, compared with a loss from continuing operations of \$9.3 million, or \$0.59 per diluted share in 2017. Our discontinued operations reflected an income of \$95 thousand, or \$0.01 per diluted share in 2018 compared with a loss of \$233 thousand, or \$0.01 per diluted share in 2017. Including discontinued operations, we had a net loss of \$21.4 million, or \$1.35 per diluted share, in 2018 compared with a net loss of \$9.6 million, or \$0.60 per diluted share, in 2017.

Fiscal Year Ended December 30, 2017 Compared with Fiscal Year Ended December 31, 2016

	Fiscal Year Ended (amounts in thousands)						Increase (Decrease)	%	Change
	December 30, 2017	% of Net Sales		December 31, 2016	% of Net Sales				
Net sales	\$412,462	100.0 %		\$397,453	100.0 %	\$ 15,009	3.8	%	
Cost of sales	311,249	75.5 %		302,028	76.0 %	9,221	3.1	%	
Gross profit	101,213	24.5 %		95,425	24.0 %	5,788	6.1	%	
Selling and administrative expenses	96,171	23.3 %		96,983	24.4 %	(812)	(0.8)	%	
Other operating expense, net	441	0.1 %		401	0.1 %	40	10.0	%	
Facility consolidation and severance expenses, net	636	0.2 %		1,456	0.4 %	(820)	(56.3)	%	
Operating income (loss)	3,965	0.9 %		(3,415)	(0.9) %	7,380	(216.1)	%	
Interest expense	5,739	1.4 %		5,392	1.4 %	347	6.4	%	
Other expense, net	39	— %		22	— %	17	77.3	%	
Loss before taxes	(1,813)	(0.5) %		(8,829)	(2.3) %	7,016	(79.5)	%	
Income tax provision (benefit)	7,509	1.8 %		(3,622)	(0.9) %	11,131	(307.3)	%	
Loss from continuing operations	(9,322)	(2.3) %		(5,207)	(1.4) %	(4,115)	79.0	%	
Loss from discontinued operations	(233)	(0.1) %		(131)	— %	(102)	77.9	%	
Income on disposal of discontinued operations	—	— %		60	— %	(60)	—	%	
Net loss	\$(9,555)	(2.4) %		\$(5,278)	(1.4) %	\$(4,277)	81.0	%	

Our fiscal year ended December 30, 2017 had 52 weeks and fiscal year ended December 31, 2016 had 53 weeks. Discussions below related to percentage changes in net sales for the annual periods have been adjusted to reflect the comparable number of weeks and are qualified with the term "net sales as adjusted". For comparative purposes, we define "net sales as adjusted" as net sales less the last week of sales in a 53 week fiscal year. We believe "net sales as adjusted" will assist our financial statement users in obtaining comparable data between the reporting periods. (See

reconciliation of net sales to net sales as adjusted in the table below.)

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Reconciliation of Net Sales to Net Sales as Adjusted

Fiscal Year Ended (amounts in thousands)						
Net Sales	Net Sales	Net Sales		Increase	Net Sales	
December	December	as	Week 53	(Decrease)	as	
30, 2017	31, 2016	Adjusted	Adjusted		Adjusted	
		December	December		%	
		31, 2016	31, 2016		Change	
Net sales as adjusted	\$412,462	\$397,453	\$(5,380)	\$392,073	\$20,389	5.2 %

Net Sales. Net sales for the year ended December 30, 2017 were \$412.5 million compared with \$397.5 million in the year-earlier period, an increase of 3.8%, or 5.2% on a “net sales as adjusted” basis, for the year-over-year comparison. Sales for the industry were flat for 2017 compared with the prior year. Our 2017 year-over-year floorcovering sales comparison reflected an increase of 5.0%, or 6.5% on a “net sales as adjusted” basis, in net sales. Sales of residential floorcovering products were up 8.0%, or 9.3% on a “net sales as adjusted” basis, and sales of commercial floorcovering products decreased 0.8%, or increased 0.9% on a “net sales as adjusted” basis. The increase in net sales was due to strong demand for our residential products through our mass merchant distribution channels. We gained market space on the west coast vacated by Royalty Carpet Mills when they ceased operations during June of 2017.

Gross Profit. Gross profit, as a percentage of net sales, increased 0.5 percentage points in 2017 compared with 2016. Despite the improved sales volumes in 2017, our gross profit was adversely affected by rising costs in raw materials and increased operating costs. We incurred startup costs related to several manufacturing initiatives including (1) adding yarn processing at our Atmore, Alabama facility, (2) installing a pre-coat line for our modular tile products, (3) completing our Colormaster beck dye and skein dye consolidation, and (4) starting up our Porterville yarn operation in California. With the completion of these initiatives, we have in place a foundation that will allow us to operate more efficiently and reduce waste costs.

Selling and Administrative Expenses. Selling and administrative expenses were \$96.2 million in 2017 compared with \$97.0 million in 2016, or a decrease of 1.1% as a percentage of sales. Selling and administrative expenses decreased as a percentage of sales primarily as a result of the higher sales volumes during 2017. In addition, selling and administrative expenses decreased as a result of lower sampling expenses in 2017 compared with 2016.

Other Operating Expense, Net. Other operating expense, net was an expense of \$441 thousand in 2017 compared with expense of \$401 thousand in 2016.

Facility Consolidation and Severance Expenses, Net. Facility consolidation expenses were \$636 thousand in 2017 compared with \$1.5 million in the year-earlier period. Facility consolidation expenses decreased in 2017 as we completed our Warehousing, Distribution & Manufacturing Consolidation Plan during 2016. During 2017, we announced a Profit Improvement Plan which included the consolidation of our two commercial brands. This plan will consolidate the brands into one management team, sharing operations in sales, marketing, product development and manufacturing. As a result of this plan, we incurred expenses of \$636 thousand during 2017 primarily related to severance costs.

Operating Income (Loss). Operations reflected operating income of \$4.0 million in 2017 compared with an operating loss of \$3.4 million in 2016. Despite the improved sales volumes in 2017, our gross profit was adversely affected by rising costs in raw materials and increased operating costs. We incurred startup costs related to several manufacturing initiatives including (1) adding yarn processing at our Atmore, Alabama facility, (2) installing a pre-coat line for our

modular tile products, (3) completing our Colormaster beck dye and skein dye consolidation, and (4) starting up our Porterville yarn operation in California. With the completion of these initiatives, we have in place a foundation that will allow us to operate more efficiently and reduce waste costs. In addition, we incurred expenses related to our Profit Improvement Plan during the year as we consolidated our two commercial brands.

Interest Expense. Interest expense increased \$347 thousand in 2017 principally due to higher rates than a year ago.

Income Tax Provision (Benefit). On December 22, 2017, the President signed the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act, among other things, lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. Consequently, we wrote down our net deferred tax assets as of December 30, 2017 by \$8.2 million to reflect the estimated impact of the Tax Act. This amount included a charge of \$1.8 million related to the re-measurement of certain net deferred tax assets using the lower U.S. corporate income tax rate and a charge of \$6.4 million to increase our valuation allowance related to our net deferred tax asset. The majority of the increase in the valuation allowance is related to the revised treatment of net operating losses under the Tax Act. Absent the impact of the Tax Act, our effective income tax benefit rate for 2017 would have been 36.4%.

Our effective income tax rate was a benefit of 41.0% in 2016. In 2016, we increased our valuation allowances by \$106 thousand related to state income tax loss carryforwards and state income tax credit carryforwards. Additionally, 2016 included approximately \$395 thousand of federal tax credits.

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Net Loss. Continuing operations reflected a loss of \$9.3 million, or \$0.59 per diluted share in 2017, compared with a loss from continuing operations of \$5.2 million, or \$0.33 per diluted share in 2016. Our discontinued operations reflected a loss of \$233 thousand, or \$0.01 per diluted share in 2017 compared with a loss of \$131 thousand, or \$0.01 per diluted share and income on disposal of discontinued operations of \$60 thousand, or \$0.00 per diluted share in 2016. Including discontinued operations, we had a net loss of \$9.6 million, or \$0.60 per diluted share, in 2017 compared with a net loss of \$5.3 million, or \$0.34 per diluted share, in 2016.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 29, 2018, cash provided by operations was \$5.1 million. Inventories decreased \$8.5 million, receivables decreased \$3.8 million and accounts payable and accrued expenses decreased \$4.2 million. Inventories were planned more closely in 2018 and decreased with lower demand. Receivables decreased on lower sales volume. In addition to items related to the general operating expenses, accounts payable and accrued expenses includes a liability of \$1.5 million for settlement of a class action lawsuit and severances related to the Profit Improvement Plan.

Capital asset acquisitions for the year ended December 29, 2018 were \$4.1 million. In 2018 proceeds from sale of equipment totaled \$1.9 million, primarily related to assets in our plants that were closed as part of our Profit Improvement Plan. Approximately \$389 thousand of equipment was acquired under capital leases and accounts payable. Depreciation and amortization for the year ended December 29, 2018 were \$12.7 million. We expect capital expenditures to be approximately \$6.0 million in 2019 while depreciation and amortization is expected to be approximately \$13.0 million. Planned capital expenditures in 2019 are primarily for new equipment.

During the year ended December 29, 2018, cash used in financing activities was \$2.9 million. We had borrowings of \$1.5 million on the revolving credit facility and \$3.3 million on notes payables and payments of \$10.4 million on notes payable and lease obligations.

We believe our operating cash flows, credit availability under our revolving credit facility and other sources of financing are adequate to finance our anticipated liquidity requirements under current operating conditions. As of December 29, 2018, the unused borrowing availability under our revolving credit facility was \$31.9 million. Our revolving credit facility requires us to maintain a fixed charge coverage ratio of 1.1 to 1.0 during any period that borrowing availability is less than \$16.5 million. As of the date hereof, our fixed coverage ratio was less than 1.1 to 1.0, accordingly the unused availability accessible by us was \$15.4 million (the amount above \$16.5 million) at December 29, 2018. Significant additional cash expenditures above our normal liquidity requirements, significant deterioration in economic conditions or continued operating losses could affect our business and require supplemental financing or other funding sources. There can be no assurance that such supplemental financing or other sources of funding can be obtained or will be obtained on terms favorable to us. See Note 23 to our Consolidated Financial Statements for additional information regarding liquidity and capital resources.

Debt Facilities

Revolving Credit Facility. The revolving credit facility provides for a maximum of \$150.0 million of revolving credit, subject to borrowing base availability. The borrowing base is currently equal to specified percentages of our eligible accounts receivable, inventories, fixed assets and real property less reserves established, from time to time, by the administrative agent under the facility. The revolving credit facility matures on September 23, 2021. The revolving credit facility is secured by a first priority lien on substantially all of our assets.

At our election, advances of the revolving credit facility bear interest at annual rates equal to either (a) LIBOR for 1, 2 or 3 month periods, as selected by us, plus an applicable margin ranging between 1.50% and 2.00%, or (b) the higher of the prime rate, the Federal Funds rate plus 0.5%, or a daily LIBOR rate plus 1.00%, plus an applicable margin ranging between 0.50% and 1.00%. The applicable margin is determined based on availability under the revolving credit facility with margins increasing as availability decreases. As of December 29, 2018, the applicable margin on our revolving credit facility was 1.75%. We pay an unused line fee on the average amount by which the aggregate commitments exceed utilization of the revolving credit facility equal to 0.375% per annum. The weighted-average interest rate on borrowings outstanding under the revolving credit facility was 4.58% at December 29, 2018 and 4.12% at December 30, 2017.

The revolving credit facility includes certain affirmative and negative covenants that impose restrictions on our financial and business operations. The revolving credit facility restricts our borrowing availability if our fixed charge coverage ratio is less than 1.1 to 1.0. During any period that our fixed charge coverage ratio is less than 1.1 to 1.0, our borrowing availability is reduced by \$16.5 million. As of December 29, 2018, the unused borrowing availability under the revolving credit facility was \$31.9 million; however, since our fixed charge coverage ratio was less than 1.1 to 1.0, the unused availability accessible by us was \$15.4 million (the amount above \$16.5 million) at December 29, 2018.

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Notes Payable - Buildings. On November 7, 2014, we entered into a ten-year \$8.3 million note payable to purchase a previously leased distribution center in Adairsville, Georgia. The note payable is scheduled to mature on November 7, 2024 and is secured by the distribution center. The note payable bears interest at a variable rate equal to one-month LIBOR plus 2.0% and is payable in equal monthly installments of principal of \$35 thousand, plus interest calculated on the declining balance of the note, with a final payment of \$4.2 million due on maturity. In addition, we entered into an interest rate swap with an amortizing notional amount effective November 7, 2014 which effectively fixes the interest rate at 4.50%.

On January 23, 2015, we entered into a ten-year \$6.3 million note payable to finance an owned facility in Saraland, Alabama. The note payable is scheduled to mature on January 7, 2025 and is secured by the facility. The note payable bears interest at a variable rate equal to one-month LIBOR plus 2.0% and is payable in equal monthly installments of principal of \$26 thousand, plus interest calculated on the declining balance of the note, with a final payment of \$3.1 million due on maturity. In addition, we entered into a forward interest rate swap with an amortizing notional amount effective January 7, 2017 which effectively fixes the interest rate at 4.30%.

Acquisition Note Payable - Development Authority of Gordon County. On November 2, 2012, we signed a 6.00% seller-financed note of \$5.5 million with Lineage PCR, Inc. ("Lineage") related to the acquisition of the continuous carpet dyeing facility in Calhoun, Georgia. Effective December 28, 2012, through a series of agreements between us, the Development Authority of Gordon County, Georgia (the "Authority") and Lineage, obligations with identical payment terms as the original note to Lineage were now payment obligations to the Authority. These transactions were consummated in order to provide a tax abatement to us related to the real estate and equipment at this facility. The tax abatement plan provided for abatement for certain components of the real and personal property taxes for up to ten years. At any time, we have the option to pay off the obligation, plus a nominal amount. The debt to the Authority bore interest at 6.00% and was payable in equal monthly installments of principal and interest of \$106 thousand over 57 months. The note matured on November 2, 2017 and the final installment was paid at that time.

Acquisition Note Payable - Robertex. On July 1, 2013, we signed a 4.50% seller-financed note of \$4.0 million, which was recorded at a fair value of \$3.7 million, with Robert P. Rothman related to the acquisition of Robertex Associates, LLC ("Robertex") in Calhoun, Georgia. The note was payable in five annual installments of principal of \$800 thousand plus interest. The note matured on June 30, 2018.

Notes Payable - Equipment and Other. Our equipment financing notes have terms ranging from 1 to 7 years, bear interest ranging from 1.00% to 7.68% and are due in monthly installments through their maturity dates. Our equipment financing notes are secured by the specific equipment financed and do not contain any financial covenants.

Capital Lease Obligations. Our capitalized lease obligations have terms ranging from 3 to 7 years, bear interest ranging from 3.55% to 7.76% and are due in monthly or quarterly installments through their maturity dates. Our capital lease obligations are secured by the specific equipment leased. (See Note 10 to our Consolidated Financial Statements).

Contractual Obligations

The following table summarizes our future minimum payments under contractual obligations as of December 29, 2018

	Payments Due By Period						Total
	(dollars in millions)						
	2019	2020	2021	2022	2023	Thereafter	
Debt	\$3.8	\$1.9	\$101.0	\$1.0	\$0.7	\$ 8.0	116.4
Interest - debt (1)	0.6	0.5	0.5	0.4	0.4	0.3	2.7
Capital leases	4.0	3.8	3.2	0.9	0.2	—	12.1
Interest - capital leases	0.6	0.4	0.2	—	—	—	1.2
Operating leases	3.0	2.5	2.1	1.7	0.9	3.2	13.4
Purchase commitments	2.7	—	—	—	—	—	2.7
Totals	14.7	9.1	107.0	4.0	2.2	11.5	148.5

(1) Interest rates used for variable rate debt were those in effect at December 29, 2018.

Stock-Based Awards

We recognize compensation expense related to share-based stock awards based on the fair value of the equity instrument over the period of vesting for the individual stock awards that were granted. At December 29, 2018, the total unrecognized compensation expense related to unvested restricted stock awards was \$1.5 million with a weighted-average vesting period of 7.7 years. At December 29, 2018, the total unrecognized compensation expense related to Directors' Stock Performance Units was \$24 thousand with a weighted-average vesting period of 0.3 years. At December 29, 2018, the total unrecognized compensation expense related to unvested stock options was \$72 thousand with a weighted-average vesting period of 0.4 years.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements at December 29, 2018 or December 30, 2017.

Income Tax Considerations

In the tax year ended December 29, 2018 we increased our valuation allowances by \$4 million related to our net deferred tax asset and specific state net operating loss and state credit carryforwards.

During 2019 and 2020, we do not anticipate any cash outlays for income taxes to exceed \$100 thousand. This is due to tax loss carryforwards and tax credit carryforwards that will be used to offset taxable income. At December 29, 2018, we were in a net deferred tax liability position of \$568 thousand.

Discontinued Operations - Environmental Contingencies

We have reserves for environmental obligations established at five previously owned sites that were associated with our discontinued textile businesses. We have a reserve of \$1.7 million for environmental liabilities at these sites as of December 29, 2018. The liability established represents our best estimate of loss and is the reasonable amount to which there is any meaningful degree of certainty given the periods of estimated remediation and the dollars applicable to such remediation for those periods. The actual timeline to remediate, and thus, the ultimate cost to complete such remediation through these remediation efforts, may differ significantly from our estimates. Pre-tax cost

for environmental remediation obligations classified as discontinued operations were primarily a result of specific events requiring action and additional expense in each period.

Fair Value of Financial Instruments

At December 29, 2018, we had no liabilities measured at fair value that fall under a level 3 classification in the hierarchy (those subject to significant management judgment or estimation).

Certain Related Party Transactions

We are a party to a five-year lease with the seller of Atlas Carpet Mills, Inc. to lease three manufacturing facilities as part of the acquisition in 2014. The lessor is controlled by an associate of ours. Rent paid to the lessor during 2018, 2017, and 2016 was \$1,003, \$978, and \$793, respectively. The lease was based on current market values for similar facilities.

We purchase a portion of our product needs in the form of fiber, yarn and carpet from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of ours. An affiliate of Mr. Shaw holds approximately 7.2% of our Common Stock,

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which represents approximately 3.5% of the total vote of all classes of our Common Stock. Engineered Floors is one of several suppliers of such materials to us. Total purchases from Engineered Floors for 2018, 2017 and 2016 were approximately \$8,200, \$7,200 and \$7,300, respectively; or approximately 2.6%, 2.3%, and 2.4% of our cost of goods sold in 2018, 2017, and 2016, respectively. Purchases from Engineered Floors are based on market value, negotiated prices. We have no contractual commitments with Mr. Shaw associated with our business relationship with Engineered Floors. Transactions with Engineered Floors are reviewed annually by our board of directors.

We are a party to a ten-year lease with the Rothman Family Partnership to lease a manufacturing facility as part of the Robertex acquisition in 2013. The lessor is controlled by an associate of ours. Rent paid to the lessor during 2018, 2017, and 2016 was \$278, \$273, and \$267, respectively. The lease was based on current market values for similar facilities. In addition, we have a note payable to Robert P. Rothman related to the acquisition of Robertex Inc. (See Note 10 to our Consolidated Financial Statements).

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize on the balance sheet right-of-use assets, representing the right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. We have completed the process of identifying our population of leases and we have identified and implemented internal procedures and controls to properly disclose and report our results beginning with our quarterly report on Form 10-Q for the quarter ending March 30, 2019. With the adoption of the new lease standard, for operating leases we will recognize right of use assets of approximately \$10.3 million and a corresponding lease liability of the same amount at the beginning of fiscal year 2019.

See Note 2 to our Consolidated Financial Statements of this Form 10-K for a discussion of the standard described above and other new accounting pronouncements which is incorporated herein by reference.

Critical Accounting Policies

Certain estimates and assumptions are made when preparing our financial statements. Estimates involve judgments with respect to, among other things, future economic factors that are difficult to predict. As a result, actual amounts could differ from estimates made when our financial statements are prepared.

The Securities and Exchange Commission requires management to identify its most critical accounting policies, defined as those that are both most important to the portrayal of our financial condition and operating results and the application of which requires our most difficult, subjective, and complex judgments. Although our estimates have not differed materially from our experience, such estimates pertain to inherently uncertain matters that could result in material differences in subsequent periods.

We believe application of the following accounting policies require significant judgments and estimates and represent our critical accounting policies. Other significant accounting policies are discussed in Note 1 to our Consolidated Financial Statements.

Revenue recognition. The Company derives its revenues primarily from the sale of floorcovering products and processing services. Revenues are recognized when control of these products or services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products and services. Sales, value add, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. Shipping and handling fees charged to customers are reported within revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The Company does not

have any significant financing components as payment is received at or shortly after the point of sale. The Company determined revenue recognition through the following steps:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the performance obligation is satisfied

Variable Consideration. The nature of the Company's business gives rise to variable consideration, including rebates, allowances, and returns that generally decrease the transaction price, which reduces revenue. These variable amounts are generally credited to the customer, based on achieving certain levels of sales activity, product returns, or price concessions.

Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration are estimated based upon historical experience and known trends.

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Customer claims and product warranties. The Company generally provides product warranties related to manufacturing defects and specific performance standards for its products for a period of up to two years. The Company accrues for estimated future assurance warranty costs in the period in which the sale is recorded. The costs are included in Cost of Sales in the Consolidated Condensed Statements of Operations and the product warranty reserve is included in accrued expenses in the Consolidated Condensed Balance Sheets. The Company calculates its accrual using the portfolio approach based upon historical experience and known trends. The Company does not provide an additional service-type warranty.

Accounts receivable allowances. We provide allowances for expected cash discounts and doubtful accounts based upon historical experience and periodic evaluations of the financial condition of our customers. If the financial conditions of our customers were to significantly deteriorate, or other factors impair their ability to pay their debts, credit losses could differ from allowances recorded in our Consolidated Financial Statements.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out method (LIFO), which generally matches current costs of inventory sold with current revenues, for substantially all inventories. Reserves are also established to adjust inventories that are off-quality, aged or obsolete to their estimated net realizable value. Additionally, rates of recoverability per unit of off-quality, aged or obsolete inventory are estimated based on historical rates of recoverability and other known conditions or circumstances that may affect future recoverability. Actual results could differ from assumptions used to value our inventory.

Goodwill. Goodwill is tested annually for impairment during the fourth quarter or earlier if significant events or substantive changes in circumstances occur that may indicate that goodwill may not be recoverable. The goodwill impairment tests are based on determining the fair value of the specified reporting units based on management judgments and assumptions using the discounted cash flows and comparable company market valuation approaches. We have identified our reporting unit as our floorcovering business for the purposes of allocating goodwill and assessing impairments. The valuation approaches are subject to key judgments and assumptions that are sensitive to change such as judgments and assumptions about sales growth rates, operating margins, the weighted average cost of capital (“WACC”), synergies from the viewpoint of a market participant and comparable company market multiples. When developing these key judgments and assumptions, we consider economic, operational and market conditions that could impact the fair value of the reporting unit. However, estimates are inherently uncertain and represent only management’s reasonable expectations regarding future developments. These estimates and the judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. We performed our annual assessment of goodwill in the fourth quarter of 2018 and an impairment was indicated. In accordance with the results of our testing, the goodwill was considered impaired and the asset was removed and a corresponding expense was recorded for asset impairment on the Consolidated Statements of Operations. (See Note 7 to our Consolidated Financial Statements)

Self-insured accruals. We estimate costs required to settle claims related to our self-insured medical, dental and workers' compensation plans. These estimates include costs to settle known claims, as well as incurred and unreported claims. The estimated costs of known and unreported claims are based on historical experience. Actual results could differ from assumptions used to estimate these accruals.

Income taxes. Our effective tax rate is based on income, statutory tax rates and tax planning opportunities available in the jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in a future period. We evaluate the recoverability of these future tax benefits by

assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely on estimates, including business forecasts and other projections of financial results over an extended period of time. In the event that we are not able to realize all or a portion of our deferred tax assets in the future, a valuation allowance is provided. We recognize such amounts through a charge to income in the period in which that determination is made or when tax law changes are enacted. We had valuation allowances of \$17.0 million at December 29, 2018 and \$13.0 million at December 30, 2017. On December 22, 2017, the President signed the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act, among other things, lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. Consequently, we wrote down our net deferred tax assets as of December 30, 2017 by \$8.2 million to reflect the estimated impact of the Tax Act. This amount included a charge of \$1.8 million related to the re-measurement of certain net deferred tax assets using the lower U.S. corporate income tax rate and a charge of \$6.4 million to increase our valuation allowance related to our net deferred tax asset. The majority of the increase in the valuation allowance is related to the revised treatment of net operating losses under the Tax Act. Pursuant to Staff Accounting Bulletin No. 118, we have completed our analysis and all adjustments have been included in income from continuing operations as an adjustment to income tax expense. At December 29, 2018, we were in a net deferred tax liability position of \$568 thousand. For further information regarding our valuation allowances, see Note 14 to our Consolidated Financial Statements.

Loss contingencies. We routinely assess our exposure related to legal matters, environmental matters, product liabilities or any other claims against our assets that may arise in the normal course of business. If we determine that it is probable

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a loss has been incurred, the amount of the loss, or an amount within the range of loss, that can be reasonably estimated will be recorded.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Dollars in thousands)

Our earnings, cash flows and financial position are exposed to market risks relating to interest rates, among other factors. It is our policy to minimize our exposure to adverse changes in interest rates and manage interest rate risks inherent in funding our Company with debt. We address this financial exposure through a risk management program that includes maintaining a mix of fixed and floating rate debt and the use of interest rate swap agreements (See Note 12 to the Consolidated Financial Statements).

At December 29, 2018, \$49,220, or approximately 38% of our total debt, was subject to floating interest rates. A one-hundred basis point fluctuation in the variable interest rates applicable to this floating rate debt would have an annual pre-tax impact of approximately \$492.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The supplementary financial information required by ITEM 302 of Regulation S-K is included in PART II, ITEM 5 of this report and the Financial Statements are included in a separate section of this report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13(a)-15(e) and 15(d)-15(e)) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of December 29, 2018, the date of the financial statements included in this Form 10-K (the "Evaluation Date"). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

(b) Changes in Internal Control over Financial Reporting. No changes in our internal control over financial reporting occurred during the quarter covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures, as well as diverse interpretation of U. S. generally accepted accounting principles by accounting professionals. It is also possible that

internal control over financial reporting can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. These inherent limitations are known features of the financial reporting process; therefore, while it is possible to design into the process safeguards to reduce such risk, it is not possible to eliminate all risk.

Our management report on internal control over financial reporting is contained in Item 15(a)(1) of this report.

Item 9B. OTHER INFORMATION

None.

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PART III.

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The sections entitled "Information about Nominees for Director" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2019 are incorporated herein by reference. Information regarding the executive officers of the registrant is presented in PART I of this report.

We adopted a Code of Business Conduct and Ethics (the "Code of Ethics") which applies to our principal executive officer, principal financial officer and principal accounting officer or controller, and any persons performing similar functions. A copy of the Code of Ethics is incorporated by reference herein as Exhibit 14 to this report.

Audit Committee Financial Expert

The Board has determined that Michael L. Owens is an audit committee financial expert as defined by Item 407 (e)(5) of Regulation S-K of the Securities Exchange Act of 1934, as amended, and is independent within the meaning of the applicable Securities and Exchange Commission rules and NASDAQ standards. For a brief listing of Mr. Owens' relevant experience, please refer to the "Election of Directors" section of the Company's Proxy Statement.

Audit Committee

We have a standing audit committee. At December 29, 2018, members of our audit committee are Michael L. Owens, Chairman, William F. Blue, Jr., Charles E. Brock, Walter W. Hubbard, Lowry F. Kline, and Hilda W. Murray.

Item 11. EXECUTIVE COMPENSATION

The sections entitled "Compensation Discussion and Analysis", "Executive Compensation Information" and "Director Compensation" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2019 are incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The section entitled "Principal Shareholders", as well as the beneficial ownership table (and accompanying notes), in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2019 are incorporated herein by reference.

Equity Compensation Plan Information as of December 29, 2018

The following table sets forth information as to our equity compensation plans as of the end of the 2018 fiscal year:

Plan Category	(a) Number of securities to be issued upon exercise of the	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance

	outstanding options, warrants and rights		under equity compensation plans (excluding securities reflected in column (a))
Equity Compensation Plans approved by security holders	421,821	(1)\$ 4.90	(2)217,686

(1) Includes the options to purchase 103,500 shares and 195,000 shares of Common Stock under our 2006 Stock Awards Plan and 2016 Stock Awards Plan, respectively, and 123,321 Performance Units issued under the 2016 Stock Awards Plan, each unit being equivalent to one share of Common Stock. Does not include shares of Common Stock issued but not vested pursuant to outstanding restricted stock awards.

(2) Includes the aggregate weighted-average of (i) the exercise price per share for outstanding options to purchase 103,500 shares and 195,000 shares of Common Stock under our 2006 Stock Awards Plan and 2016 Stock Awards Plan, respectively, and (ii) the price per share of the Common Stock on the grant date for each of 123,321 Performance Units issued under the 2016 Stock Awards Plan (each unit equivalent to one share of Common Stock).

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The section entitled "Certain Transactions Between the Company and Directors and Officers" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2019 is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The section entitled "Audit Fees Discussion" in the Proxy Statement of the Registrant for the Annual Meeting of Shareholders to be held May 1, 2019 is incorporated herein by reference.

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PART IV.

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements - The response to this portion of Item 15 is submitted as a separate section of this report.

(2) Financial Statement Schedules - The response to this portion of Item 15 is submitted as a separate section of this report.

(3) Exhibits - Please refer to the Exhibit Index which is attached hereto.

(b) Exhibits - The response to this portion of Item 15 is submitted as a separate section of this report. See Item 15(a)(3) above.

(c) Financial Statement Schedules - The response to this portion of Item 15 is submitted as a separate section of this report. See Item 15(a)(2).

Item 16. FORM 10-K SUMMARY

None.

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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.

Date: March 8, 2019 The Dixie Group, Inc.

/s/ DANIEL K. FRIERSON
By: Daniel K. Frierson
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ DANIEL K. FRIERSON Daniel K. Frierson	Chairman of the Board, Director and Chief Executive Officer	March 8, 2019
/s/ JON A. FAULKNER Jon A. Faulkner	Vice President, Chief Financial Officer	March 8, 2019
/s/ ALLEN L. DANZEY Allen L. Danzey	Chief Accounting Officer	March 8, 2019
/s/ D. KENNEDY FRIERSON, JR. D. Kennedy Frierson, Jr.	Vice President, Chief Operating Officer and Director	March 8, 2019
/s/ WILLIAM F. BLUE, JR. William F. Blue, Jr.	Director	March 8, 2019
/s/ CHARLES E. BROCK Charles E. Brock	Director	March 8, 2019
/s/ WALTER W. HUBBARD Walter W. Hubbard	Director	March 8, 2019
/s/ LOWRY F. KLINE Lowry F. Kline	Director	March 8, 2019
/s/ HILDA S. MURRAY Hilda S. Murray	Director	March 8, 2019
/s/ MICHAEL L. OWENS Michael L. Owens	Director	March 8, 2019

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ANNUAL REPORT ON FORM 10-K

ITEM 8 AND ITEM 15(a)(1) AND ITEM 15(a)(2)

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS

FINANCIAL STATEMENT SCHEDULES

YEAR ENDED DECEMBER 29, 2018

THE DIXIE GROUP, INC.

DALTON, GEORGIA

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FORM 10-K - ITEM 8 and ITEM 15(a)(1) and (2)

THE DIXIE GROUP, INC. AND SUBSIDIARIES

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements and financial statement schedules of The Dixie Group, Inc. and subsidiaries are included in Item 8 and Item 15(a)(1) and 15(c):

Table of Contents	Page
<u>Management's report on internal control over financial reporting</u>	<u>34</u>
<u>Report of independent registered public accounting firm</u>	<u>35</u>
<u>Consolidated balance sheets - December 29, 2018 and December 30, 2017</u>	<u>36</u>
<u>Consolidated statements of operations - Years ended December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>37</u>
<u>Consolidated statements of comprehensive income (loss) - Years ended December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>38</u>
<u>Consolidated statements of cash flows - Years ended December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>39</u>
<u>Consolidated statements of stockholders' equity - Years ended December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>40</u>
<u>Notes to consolidated financial statements</u>	<u>41</u>
<u>Schedule II - Valuation and Qualifying Accounts</u>	<u>70</u>

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, or are inapplicable, or the information is otherwise shown in the financial statements or notes thereto, and therefore such schedules have been omitted.

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures, as well as diverse interpretation of U. S. generally accepted accounting principles by accounting professionals. It is also possible that internal control over financial reporting can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. These inherent limitations are known features of the financial reporting process; therefore, while it is possible to design into the process safeguards to reduce such risk, it is not possible to eliminate all risk.

Management, including our principal executive officer and principal financial officer, has used the criteria set forth in the report entitled “Internal Control - Integrated Framework” published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) to evaluate the effectiveness of its internal control over financial reporting. Management has concluded that its internal control over financial reporting was effective as of December 29, 2018, based on those criteria.

/s/ Daniel K. Frierson
Chairman of the Board and
Chief Executive Officer

/s/ Jon A. Faulkner
Chief Financial Officer

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Report of Independent Registered Public Accounting Firm
The Shareholders and the Board of Directors of The Dixie Group, Inc.
Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of The Dixie Group, Inc. (the "Company") as of December 29, 2018 and December 30, 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and schedule listed in the Index at Item 15(a)(2) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Dixon Hughes Goodman LLP

We have served as the Company's auditor since 2013.

Atlanta, Georgia

March 8, 2019

THE DIXIE GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

	December 29, 2018	December 30, 2017 (As Adjusted)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 18	\$ 19
Receivables, net	42,542	46,480
Inventories, net	105,195	113,657
Prepaid expenses	5,204	4,669
TOTAL CURRENT ASSETS	152,959	164,825
PROPERTY, PLANT AND EQUIPMENT, NET	84,111	93,785
GOODWILL AND OTHER INTANGIBLES	—	5,850
OTHER ASSETS	15,708	19,447
TOTAL ASSETS	\$ 252,778	\$ 283,907
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 17,779	\$ 18,541
Accrued expenses	30,852	31,360
Current portion of long-term debt	7,794	9,811
TOTAL CURRENT LIABILITIES	56,425	59,712
LONG-TERM DEBT	120,251	123,446
OTHER LONG-TERM LIABILITIES	17,118	21,486
TOTAL LIABILITIES	193,794	204,644
COMMITMENTS AND CONTINGENCIES (See Note 18)		
STOCKHOLDERS' EQUITY		
Common Stock (\$3 par value per share): Authorized 80,000,000 shares, issued and outstanding - 15,522,588 shares for 2018 and 15,279,812 shares for 2017	46,568	45,839
Class B Common Stock (\$3 par value per share): Authorized 16,000,000 shares, issued and outstanding - 839,304 shares for 2018 and 861,499 shares for 2017	2,518	2,584
Additional paid-in capital	156,390	157,139
Accumulated deficit	(146,384)	(125,000)
Accumulated other comprehensive income (loss)	(108)	(1,299)
TOTAL STOCKHOLDERS' EQUITY	58,984	79,263
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 252,778	\$ 283,907

See accompanying notes to the consolidated financial statements.

THE DIXIE GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share data)

	Year Ended		
	December 29, 2018	December 30, 2017 (As Adjusted)	December 31, 2016 (As Adjusted)
NET SALES	\$405,033	\$ 412,462	\$ 397,453
Cost of sales	318,042	311,249	302,028
GROSS PROFIT	86,991	101,213	95,425
Selling and administrative expenses	92,473	96,189	97,004
Other operating expense, net	458	441	401
Facility consolidation and severance expenses, net	3,167	636	1,456
Impairment of assets	6,709	—	—
OPERATING INCOME (LOSS)	(15,816)	3,947	(3,436)
Interest expense	6,491	5,739	5,392
Other expense, net	3	21	1
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(22,310)	(1,813)	(8,829)
Income tax provision (benefit)	(831)	7,509	(3,622)
LOSS FROM CONTINUING OPERATIONS	(21,479)	(9,322)	(5,207)
Income (loss) from discontinued operations, net of tax	95	(233)	(131)
Income on disposal of discontinued operations, net of tax	—	—	60
NET LOSS	\$(21,384)	\$(9,555)	\$(5,278)
BASIC EARNINGS (LOSS) PER SHARE:			
Continuing operations	\$(1.36)	\$(0.59)	\$(0.33)
Discontinued operations	0.01	(0.01)	(0.01)
Disposal of discontinued operations	—	—	0.00
Net loss	\$(1.35)	\$(0.60)	\$(0.34)
BASIC SHARES OUTSTANDING	15,764	15,699	15,638
DILUTED EARNINGS (LOSS) PER SHARE:			
Continuing operations	\$(1.36)	\$(0.59)	\$(0.33)
Discontinued operations	0.01	(0.01)	(0.01)
Disposal of discontinued operations	—	—	0.00
Net loss	\$(1.35)	\$(0.60)	\$(0.34)
DILUTED SHARES OUTSTANDING	15,764	15,699	15,638
DIVIDENDS PER SHARE:			
Common Stock	\$—	\$—	\$—
Class B Common Stock	—	—	—

See accompanying notes to the consolidated financial statements.

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THE DIXIE GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(amounts in thousands)

	Year Ended		
	December 31, 2018	December 30, 2017	December 31, 2016
NET LOSS	\$(21,384)	\$ (9,555)	\$ (5,278)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized gain (loss) on interest rate swaps	531	180	(263)
Income taxes	—	68	(100)
Unrealized gain (loss) on interest rate swaps, net	531	112	(163)
Reclassification of loss into earnings from interest rate swaps (1)	673	1,250	1,291
Income taxes	—	475	491
Reclassification of loss into earnings from interest rate swaps, net	673	775	800
Unrecognized net actuarial gain (loss) on postretirement benefit plans	18	11	(3)
Income taxes	—	4	(1)
Unrecognized net actuarial gain (loss) on postretirement benefit plans, net	18	7	(2)
Reclassification of net actuarial gain into earnings from postretirement benefit plans (2)	(27)	(30)	(33)
Income taxes	—	(11)	(13)
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net	(27)	(19)	(20)
Reclassification of prior service credits into earnings from postretirement benefit plans (2)	(4)	(4)	(4)
Income taxes	—	(1)	(2)
Reclassification of prior service credits into earnings from postretirement benefit plans, net	(4)	(3)	(2)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	1,191	872	613
COMPREHENSIVE LOSS	\$(20,193)	\$ (8,683)	\$ (4,665)

(1) Amounts for cash flow hedges reclassified from accumulated other comprehensive income (loss) to net loss were included in interest expense in the Company's Consolidated Statement of Operations.

(2) Amounts for postretirement plans reclassified from accumulated other comprehensive income (loss) to net loss were included in selling and administrative expenses in the Company's Consolidated Statement of Operations.

See accompanying notes to the consolidated financial statements.

THE DIXIE GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Year Ended		
	December 31, 2018	December 30, 2017	December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss from continuing operations	\$(21,479)	\$ (9,322)	\$ (5,207)
Income (loss) from discontinued operations	95	(233)	(131)
Income on disposal of discontinued operations	—	—	60
Net loss	(21,384)	(9,555)	(5,278)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	12,653	12,947	13,515
Provision (benefit) for deferred income taxes	(537)	8,181	(3,260)
Net loss (gain) on property, plant and equipment disposals	(1,047)	170	725
Impairment of assets	1,164	—	—
Impairment of goodwill and intangibles	5,545	—	—
Stock-based compensation (credit) expense	(29)	940	1,324
Excess tax benefits from stock-based compensation	—	—	(3)
Bad debt expense	163	70	38
Changes in operating assets and liabilities:			
Receivables	3,775	(2,945)	7,163
Inventories	8,462	(16,420)	17,909
Other current assets	(535)	776	(1,014)
Accounts payable and accrued expenses	(4,198)	(3,161)	(6,827)
Other operating assets and liabilities	1,073	(609)	(371)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	5,105	(9,606)	23,921
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sales of property, plant and equipment	1,856	—	1
Purchase of property, plant and equipment	(4,052)	(12,724)	(4,904)
NET CASH USED IN INVESTING ACTIVITIES	(2,196)	(12,724)	(4,903)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net borrowings (payments) on revolving credit facility	1,512	27,125	(9,986)
Payments on notes payable - buildings	(731)	(731)	(731)
Payments on notes payable related to acquisitions	(791)	(1,920)	(1,924)
Borrowings on notes payable - equipment and other	3,273	7,612	2,674
Payments on notes payable - equipment and other	(4,260)	(4,145)	(4,653)
Payments on capital leases	(4,617)	(3,921)	(3,171)
Change in outstanding checks in excess of cash	2,762	(1,695)	(932)
Repurchases of Common Stock	(58)	(116)	(152)
Excess tax benefits from stock-based compensation	—	—	3
Payments for debt issuance costs	—	—	(287)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(2,910)	22,209	(19,159)

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DECREASE IN CASH AND CASH EQUIVALENTS	(1) (121) (141)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	19	140	281	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$18	\$ 19	\$ 140	

SUPPLEMENTAL CASH FLOW INFORMATION:

Equipment purchased under capital leases	223	621	169	
Equipment purchased under notes payable	—	59	—	
Accrued purchases of equipment	166	179	258	
Shortfall of tax benefits from stock-based compensation	—	—	(192)

See accompanying notes to the consolidated financial statements.

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THE DIXIE GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(amounts in thousands, except share data)

	Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 26, 2015	\$45,466	\$2,555	\$155,734	\$(110,378)	\$ (2,573)	\$ 90,804
Repurchases of Common Stock - 35,815 shares	(107)	—	(45)	—	—	(152)
Restricted stock grants issued - 149,215 shares	354	93	(447)	—	—	—
Restricted stock grants forfeited - 1,314 shares	(4)	—	4	—	—	—
Class B converted into Common Stock - 12,144 shares	36	(36)	—	—	—	—
Stock-based compensation expense	—	—	1,324	—	—	1,324
Excess tax benefits from stock-based compensation	—	—	(189)	—	—	(189)
Net loss	—	—	—	(5,278)	—	(5,278)
Other comprehensive loss	—	—	—	—	613	613
Balance at December 31, 2016	45,745	2,612	156,381	(115,656)	(1,960)	87,122
Repurchases of Common Stock - 33,112 shares	(100)	—	(16)	—	—	(116)
Restricted stock grants issued - 60,000 shares	180	—	(180)	—	—	—
Restricted stock grants forfeited - 4,629 shares	(14)	—	12	—	—	(2)
Class B converted into Common Stock - 9,215 shares	28	(28)	—	—	—	—
Stock-based compensation expense	—	—	942	—	—	942
Net loss	—	—	—	(9,555)	—	(9,555)
Other comprehensive income	—	—	—	—	872	872
Reclassification of stranded tax effects	—	—	—	211	(211)	—
Balance at December 30, 2017	45,839	2,584	157,139	(125,000)	(1,299)	79,263
Common Stock issued - 39,711 shares	119	—	(119)	—	—	—
Repurchases of Common Stock - 20,226 shares	(61)	—	4	—	—	(57)
Restricted stock grants issued - 307,292 shares	677	245	(922)	—	—	—
Restricted stock grants forfeited - 106,196 shares	(25)	(292)	(621)	—	—	(938)
Class B converted into Common Stock - 6,250 shares	19	(19)	—	—	—	—
Stock-based compensation expense	—	—	909	—	—	909
Net loss	—	—	—	(21,384)	—	(21,384)

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Other comprehensive income	—	—	—	—	1,191	1,191
Balance at December 29, 2018	\$46,568	\$2,518	\$156,390	\$(146,384)	\$(108)) \$58,984

See accompanying notes to the consolidated financial statements.

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THE DIXIE GROUP, INC.
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Company's businesses consist principally of marketing, manufacturing and selling finished carpet, rugs and luxury vinyl flooring in the domestic floorcovering market. The Company sells floorcovering products in both residential and commercial applications. Additionally, the Company provides manufacturing support to its carpet businesses through its separate processing operations.

Based on applicable accounting standards, the Company has determined that it has one reportable segment, Floorcovering comprising of two operating segments, Residential and Commercial. Pursuant to accounting standards, the Company has aggregated the two operating segments into one reporting segment because they have similar economic characteristics, and the operating segments are similar in all of the following areas: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) the nature of the regulatory environment.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of The Dixie Group, Inc. and its wholly-owned subsidiaries (the "Company"). Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and these differences could be material.

Fiscal Year

The Company ends its fiscal year on the last Saturday of December. All references herein to "2018," "2017," and "2016," mean the fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016, respectively. The year 2016 contained 53 weeks, all other years presented contained 52 weeks.

Reclassifications

The Company reclassified certain amounts in 2017 and 2016 to conform to the 2018 presentation (See Note 2).

Discontinued Operations

The financial statements separately report discontinued operations and the results of continuing operations (See Note 21).

Cash and Cash Equivalents

Highly liquid investments with original maturities of three months or less when purchased are reported as cash equivalents.

Market Risk

The Company sells carpet to floorcovering retailers, the interior design, architectural and specifier communities and supplies carpet yarn and carpet dyeing and finishing services to certain manufacturers. The Company's customers are located principally throughout the United States. As a percentage of net sales, one customer accounted for approximately 13% in 2018, 14% in 2017 and 10% in 2016. No other customer accounted for more than 10% of net sales in 2018, 2017, or 2016, nor did the Company make a significant amount of sales to foreign countries during 2018, 2017, or 2016.

Credit Risk

The Company grants credit to its customers with defined payment terms, performs ongoing evaluations of the credit worthiness of its customers and generally does not require collateral. Accounts receivable are carried at their outstanding principal amounts, less an anticipated amount for discounts and an allowance for doubtful accounts, which management believes is sufficient to cover potential credit losses based on historical experience and periodic evaluation of the financial condition of the Company's customers. As a percentage of customer's trade accounts receivable, one customer accounted for approximately 34% in 2018, 31% in 2017,

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THE DIXIE GROUP, INC.
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and 28% in 2016. Notes receivable are carried at their outstanding principal amounts, less an allowance for doubtful accounts to cover potential credit losses based on the financial condition of borrowers and collateral held by the Company.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out ("LIFO") method, which generally matches current costs of inventory sold with current revenues, for substantially all inventories.

Property, Plant and Equipment

Property, plant and equipment are stated at the lower of cost or impaired value. Provisions for depreciation and amortization of property, plant and equipment have been computed for financial reporting purposes using the straight-line method over the estimated useful lives of the related assets, ranging from 10 to 40 years for buildings and improvements, and 3 to 10 years for machinery and equipment. Costs to repair and maintain the Company's equipment and facilities are expensed as incurred. Such costs typically include expenditures to maintain equipment and facilities in good repair and proper working condition.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when circumstances indicate that the carrying value of an asset may not be fully recoverable. When the carrying value of the asset exceeds the value of its estimated undiscounted future cash flows, an impairment charge is recognized equal to the difference between the asset's carrying value and its fair value. Fair value is estimated using discounted cash flows, prices for similar assets or other valuation techniques.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over the fair value of identified net assets acquired in business combinations. In accordance with the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic ("ASC") 350, "Intangibles-Goodwill and Other," the Company tests goodwill for impairment annually in the fourth quarter of each year or more frequently if events or circumstances indicate that the carrying value of goodwill associated with a reporting unit may not be fully recoverable. The goodwill impairment tests are based on determining the fair value of the specified reporting units based on management judgments and assumptions using the discounted cash flows and comparable company market valuation approaches. The Company has identified its reporting unit as its floorcovering business for the purposes of allocating goodwill and assessing impairments. The valuation approaches are subject to key judgments and assumptions that are sensitive to change such as judgments and assumptions about sales growth rates, operating margins, the weighted average cost of capital ("WACC") and comparable company market multiples. When developing these key judgments and assumptions, the Company considers economic, operational and market conditions that could impact the fair value of the reporting unit. However, estimates are inherently uncertain and represent only management's reasonable expectations regarding future developments. These estimates and the judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. Should a significant or prolonged deterioration in economic conditions occur or a decline in comparable company market multiples, then key judgments and assumptions could be impacted.

In the goodwill assessment process, the Company compares the carrying value of a reporting unit, including goodwill, to the fair value of the reporting unit to identify potential goodwill impairments. The Company estimates the fair value of the reporting unit by using both a discounted cash flow and comparable company market valuation approach. If an impairment is indicated in the assessment, the impairment would be measured as the amount by which the reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. (See Note 7).

Identifiable intangible assets with finite lives are generally amortized on a straight-line basis over their respective lives, which range from 10 to 20 years (See Note 7).

Self-Insured Benefit Programs

The Company records liabilities to reflect an estimate of the ultimate cost of claims related to its self-insured medical and dental benefits and workers' compensation. The amounts of such liabilities are based on an analysis of the Company's historical experience for each type of claim.

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Income Taxes

The Company recognizes deferred income tax assets and liabilities for the future tax consequences of the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company evaluates the recoverability of these future tax benefits by assessing the adequacy of future expected taxable income from all sources. In the event that the Company is not able to realize all or a portion of the deferred tax assets in the future, a valuation allowance is provided. The Company recognizes such amounts through a charge to income in the period in which that determination is made or when tax law changes are enacted. The Company recognizes interest and penalties related to uncertain tax positions, if any, in income tax expense.

Derivative Financial Instruments

The Company does not hold speculative financial instruments, nor does it hold or issue financial instruments for trading purposes. The Company uses derivative instruments, currently interest rate swaps, to minimize the effects of interest rate volatility.

The Company recognizes all derivatives at fair value. Derivatives that are designated as cash flow hedges are linked to specific liabilities on the Company's balance sheet. The Company assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. When it is determined that a derivative is not highly effective or the derivative expires, is sold, terminated, or exercised, the Company discontinues hedge accounting for that specific hedge instrument. Changes in the fair value of effective cash flow hedges are deferred in accumulated other comprehensive income (loss) ("AOCIL") and reclassified to earnings in the same periods during which the hedge transaction affects earnings. Changes in the fair value of derivatives that are not effective cash flow hedges are recognized in results of operations.

Treasury Stock

The Company classifies treasury stock as a reduction to Common Stock for the par value of such shares acquired and the difference between the par value and the price paid for each share recorded either entirely to retained earnings or to additional paid-in-capital for periods in which the Company does not have retained earnings. This presentation reflects the repurchased shares as authorized but unissued as prescribed by state statute.

Revenue Recognition

The Company derives its revenues primarily from the sale of floorcovering products and processing services. Revenues are recognized when control of these products or services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products and services. Sales, value add, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. Shipping and handling fees charged to customers are reported within revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The Company does not have any significant financing components as payment is received at or shortly after the point of sale. The Company determined revenue recognition through the following steps:

1. Identification of the contract with a customer

- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the performance obligation is satisfied

Performance Obligations

For performance obligations related to residential floorcovering and commercial floorcovering products, control transfers at a point in time. To indicate the transfer of control, the Company must have a present right to payment, legal title must have passed to the customer and the customer must have the significant risks and rewards of ownership. The Company's principal terms of sale are FOB Shipping Point and FOB Destination and the Company transfers control and records revenue for product sales either upon shipment or delivery to the customer, respectively. Revenue is allocated to each performance obligation based on its relative stand-alone selling prices. Stand-alone selling prices are based on observable prices at which the Company separately sells the products or services.

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Variable Consideration

The nature of the Company's business gives rise to variable consideration, including rebates, allowances, and returns that generally decrease the transaction price, which reduces revenue. These variable amounts are generally credited to the customer, based on achieving certain levels of sales activity, product returns, or price concessions.

Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration are estimated based upon historical experience and known trends.

Advertising Costs

The Company engages in promotional and advertising programs. Expenses relating to these programs are charged to results of operations during the period of the related benefits. These arrangements do not require significant estimates of costs. Costs related to cooperative advertising programs are normally recorded as selling and administrative expenses when the Company can reasonably identify the benefit associated with the program and can reasonably estimate that the fair value of the benefit is equal to or greater than its cost. The amount of advertising and promotion expenses included in selling and administrative expenses was not significant for the years 2018, 2017 or 2016.

Warranties

The Company generally provides product warranties related to manufacturing defects and specific performance standards for its products for a period of up to two years. The Company accrues for estimated future assurance warranty costs in the period in which the sale is recorded. The costs are included in Cost of Sales in the Consolidated Condensed Statements of Operations and the product warranty reserve is included in accrued expenses in the Consolidated Condensed Balance Sheets. The Company calculates its accrual using the portfolio approach based upon historical experience and known trends. (See Note 9.) The Company does not provide an additional service-type warranty.

Cost of Sales

Cost of sales includes all costs related to manufacturing the Company's products, including purchasing and receiving costs, inspection costs, warehousing costs, freight costs, internal transfer costs or other costs of the Company's distribution network.

Selling and Administrative Expenses

Selling and administrative expenses include all costs, not included in cost of sales, related to the sale and marketing of the Company's products and general administration of the Company's business.

Operating Leases

Rent is expensed over the lease period, including the effect of any rent holiday and rent escalation provisions, which effectively amortizes the rent holidays and rent escalations on a straight-line basis over the lease period. Leasehold improvements are amortized over the shorter of their economic lives or the lease term, excluding renewal options. Any leasehold improvement made by the Company and funded by the lessor is treated as a leasehold improvement and amortized over the shorter of its economic life or the lease term. Any funding provided by the lessor for such improvements is treated as deferred costs and amortized over the lease period.

Stock-Based Compensation

The Company recognizes compensation expense relating to stock-based payments based on the fair value of the equity or liability instrument issued. Restricted stock grants with pro-rata vesting are expensed using the straight-line method. (Terms of the Company's awards are specified in Note 16). The Company accounts for forfeitures when they actually occur.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted in Fiscal 2018

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU was effective for annual reporting periods

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beginning after December 15, 2017, including interim reporting periods within that reporting period. The standard permits the use of either the retrospective or cumulative effect transition method. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required for customer contracts, significant judgments and changes in judgments. The Company adopted the new standard effective December 31, 2017, the first day of the Company's fiscal year, using the full retrospective method approach and expanded its financial statement disclosures in order to comply with the ASU. (See Note 3.) The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements. The majority of the Company's revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Based on the Company's evaluation process and review of its contracts with customers, the timing (point in time) and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard.

Therefore, no changes were required to its reported revenues as a result of the adoption. However, the adoption resulted in the recognition of an asset related to certain product returns by increasing the returns liability for December 30, 2017 and recognizing a corresponding asset for the estimated value of the returns from customers; this gross up had no corresponding impact on the Consolidated Condensed Statements of Operations. The Consolidated Balance Sheets as of December 30, 2017 has been adjusted to reflect retrospective application of the new accounting standard as follows:

	December 30, 2017		
	As Previously Reported	Adjustments	As Adjusted
ASSETS			
Prepays and other current assets	\$3,600	\$ 1,069	\$ 4,669
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accrued expenses	\$30,291	\$ 1,069	\$ 31,360

As part of the adoption of the ASU, the Company elected to use the following practical expedients (i) to exclude disclosures of transaction prices allocated to remaining performance obligations when the Company expects to recognize such revenue for all periods prior to the date of initial application of the ASU; (ii) not to adjust the promised amount of consideration for the effects of a significant financing component when the Company expects, at contract inception, that the period between the Company's transfer of a promised product or service to a customer and when the customer pays for that product or service will be one year or less; (iii) to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less; (iv) not to recast revenues for contracts that begin and end in the same fiscal year; and (v) not to assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer. The Company's revenue is recognized at a point in time based on the transfer of control whereby the Company does not invest in contract costs that are recoverable. In addition, performance obligations and customer payments are within one year or less.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which addresses the recognition,

measurement, presentation and disclosure of financial assets and liabilities. This ASU primarily affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. In addition, this ASU clarifies the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. This ASU is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this ASU did not have a significant impact on the financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides clarification guidance on certain cash flow presentation issues that have developed due to diversity in practice. These issues include certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. For public entities, ASU 2016-15 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this ASU did not have a significant impact on the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. Under the ASU, changes in restricted cash and restricted cash equivalents would be included along with those of cash and cash equivalents in the statement of cash

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flows. In addition, a reconciliation between the balance sheet and the statement of cash flows would be disclosed when the balance sheet includes more than one line item for cash and cash equivalents and restricted cash and cash equivalents. For public entities, ASU 2016-18 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Entities are required to apply the standard's provisions on a retrospective basis. Since the Company has no restricted cash, the adoption of this ASU did not have an impact on the financial statements.

In February 2017, the FASB issued ASU No. 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." This ASU clarifies the scope and application of ASC 610-20 on the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales. The amendments are effective at the same time as the new revenue standard. For public entities, the amendments are effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those fiscal years. The adoption of this ASU did not have a significant impact on the financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changed the presentation of net periodic benefit cost related to employer sponsored defined benefit plans and other postretirement benefits. Service cost are included within the same income statement line item as other compensation costs arising from services rendered during the period, while other components of net periodic benefit pension cost are presented separately outside of operating income. Additionally, only service costs may be capitalized in assets. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Effective December 31, 2017, the first day of the Company's fiscal year, the Company adopted this ASU. The Company adopted this ASU retrospectively, utilizing the practical expedient by using the amounts disclosed in the postretirement plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements, which resulted in an immaterial amount being reclassified between selling and administrative expenses and other (income) expense, net in the Company's Consolidated Condensed Statements of Operations.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." This ASU provides amendments to the current guidance on determining which changes to the terms and conditions of share-based payment awards require the application of modification accounting. The effects of a modification should be accounted for unless there are no changes between the fair value, vesting conditions, and classification of the modified award and the original award immediately before the original award is modified. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this ASU did not have an impact on the financial statements.

Accounting Standards Yet to Be Adopted

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize on the balance sheet right-of-use assets, representing the right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU No. 2018-11 providing an optional transition method allowing entities to apply the new lease

standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption.

In line with the optional transition method allowed as part of the modified retrospective transition approach provided in ASU No. 2018-11, the Company has elected to not adjust comparative periods. The new standard will be applied to leases that have commenced as of the effective date, December 30, 2018, with a cumulative effect adjustment recorded as of that date. The Company has also elected to apply the package of practical expedients allowed in ASC 842-10-65-1 whereby the Company need not reassess whether any expired or existing contracts are or contain leases, the Company need not reassess the lease classification for any expired or existing leases, and the Company need not reassess initial direct costs for any existing leases.

We have completed the process of identifying our population of leases and we have identified and implemented internal procedures and controls to properly disclose and report our results beginning with our quarterly report on Form 10-Q for the quarter ending March 30, 2019.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which amends the impairment model to utilize an expected loss methodology in place of the current incurred loss methodology, which will result in the more timely recognition of losses. For public entities, ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company does not believe the adoption of this ASU will have a significant impact on the financial statements due to the nature of the Company's customers and the limited amount of write-offs in past years.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The amendments in this ASU update current guidance by more closely aligning the results of cash flow and fair value hedge accounting with risk management activities through changes to both the designation and measurement guidance

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for qualifying hedging relationships and the presentation of hedge results. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company does not believe the adoption of this ASU will have a significant impact on the financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." This update is a part of FASB's disclosure framework project to improve the effectiveness of disclosures in the notes to financial statements. The amendments in this update remove, modify, and add certain disclosure requirements within Topic 820. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of this update and an entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until the effective date. Certain disclosure amendments are to be applied prospectively for only the most recent interim or annual period presented, while other amendments are to be applied retrospectively to all periods presented. The company does not believe that the adoption of this ASU will have a significant impact on its financial statements.

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20) - Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans." This update is a part of FASB's disclosure framework project to improve the effectiveness of disclosures in the notes to financial statements. The amendments in this update modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This standard is effective for fiscal years ending after December 15, 2020 and early adoption is permitted. Upon adoption, this update is to be applied on a retrospective basis to all periods presented. The company does not believe that the adoption of this ASU will have a significant impact on its financial statements.

In October 2018, the FASB issued ASU 2018-16, "Derivatives and Hedging (Topic 815) - Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting Purposes." This update permits the use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes. For entities that have not already adopted Update 2017-12, the amendments in this Update are required to be adopted concurrently with the amendments in Update 2017-12. The Company will adopt this standard beginning first quarter 2019 and does not believe that the adoption of this ASU will have a significant impact on its financial statements.

NOTE 3 - REVENUE

Disaggregation of Revenue from Contracts with Customers

The following table disaggregates the Company's revenue by end-user markets for the twelve months ended December 29, 2018, December 30, 2017, and December 31, 2016:

	2018	2017	2016
Residential floorcovering products	\$289,129	\$279,038	\$262,892
Commercial floorcovering products	113,971	131,372	127,816
Other services	1,933	2,052	6,745
Total net sales	\$405,033	\$412,462	\$397,453

Residential floorcovering products. Residential floorcovering products include broadloom carpet, rugs, luxury vinyl flooring and engineered hardwood. These products are sold into the designer, retailer, mass merchant and builder markets.

Commercial floorcovering products. Commercial floorcovering products include broadloom carpet, carpet tile, rugs, and luxury vinyl flooring. These products are sold into the corporate, hospitality, healthcare, government, and education markets through the use of designers and architects.

Other services. Other services include carpet yarn processing and carpet dyeing services.

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Contract Balances

The Company often receives cash payments from customers in advance of the Company's performance for limited production run orders resulting in contract liabilities. These contract liabilities are classified in accrued expenses in the Consolidated Balance Sheets based on the timing of when the Company expects to recognize revenue, which is typically less than a year. The net decrease or increase in the contract liabilities is primarily driven by order activity for limited runs requiring deposits offset by the recognition of revenue and application of deposit on the receivables ledger for such activity during the period. The activity in the advanced deposits for the twelve months ended December 29, 2018, December 30, 2017, and December 31, 2016 is as follows:

	2018	2017	2016
Beginning contract liability	\$5,717	\$8,212	\$6,674
Revenue recognized from contract liabilities included in the beginning balance	(5,717)	(7,820)	(5,894)
Increases due to cash received, net of amounts recognized in revenue during the period	6,013	5,325	7,432
Ending contract liability	\$6,013	\$5,717	\$8,212

NOTE 4 - RECEIVABLES, NET

Receivables are summarized as follows:

	2018	2017
Customers, trade	\$40,121	\$43,683
Other receivables	2,595	2,930
Gross receivables	42,716	46,613
Less: allowance for doubtful accounts	(174)	(133)
Receivables, net	\$42,542	\$46,480

Bad debt expense was \$163 in 2018, \$70 in 2017, and \$38 in 2016.

NOTE 5 - INVENTORIES, NET

Inventories are summarized as follows:

	2018	2017
Raw materials	\$36,875	\$39,264
Work-in-process	20,274	24,454
Finished goods	67,085	65,172
Supplies and other	190	143
LIFO reserve	(19,229)	(15,376)
Inventories, net	\$105,195	\$113,657

Reduction of inventory quantities in 2018 resulted in liquidations of LIFO inventories carried at prevailing costs established in prior years and increased cost of sales by \$168 in 2018.

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NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following:

	2018	2017
Land and improvements	\$8,528	\$7,886
Buildings and improvements	63,389	62,852
Machinery and equipment	183,900	188,971
Assets under construction	2,675	2,443
	258,492	262,152
Accumulated depreciation	(174,381)	(168,367)
Property, plant and equipment, net	\$84,111	\$93,785

Depreciation of property, plant and equipment, including amounts for capital leases, totaled \$12,141 in 2018, \$12,436 in 2017 and \$12,944 in 2016.

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill is \$0 as of December 29, 2018 and \$3,389 as of December 30, 2017. The Company performed its annual assessment of goodwill in the fourth quarters of 2018, 2017, and 2016 with no impairment indicated in 2017 and 2016. At the end of 2018, it was determined that the carrying value was greater than calculated fair value. Also at the end of 2018, the intangibles were determined to not be recoverable based on revised projections. Impairment costs incurred are classified as "impairment of assets" in the Company's Consolidated Statements of Operations.

The following table represents the details of the Company's intangible assets subject to amortization:

	2018			2017			
	Gross	Accumulated Amortization	Impairment	Net	Gross	Accumulated Amortization	Net
Customer relationships	\$208	\$ (96)	\$ (112)	\$ —	\$ —208	\$ (80)	\$ 128
Rug design coding	144	(86)	(58)	—	144	(72)	72
Trade names	3,300	(1,314)	(1,986)	—	3,300	(1,039)	2,261
Total	\$3,652	\$ (1,496)	\$ (2,156)	\$ —	\$ —3,652	\$ (1,191)	\$ 2,461

Amortization expense for intangible assets is summarized as follows:

	2018	2017	2016
Customer relationships	\$16	\$16	\$16
Rug design coding	14	15	14
Trade names	275	275	275
Amortization expense	\$305	\$306	\$305

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NOTE 8 - ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	2018	2017 (As Adjusted)
Compensation and benefits (1)	\$8,186	\$ 9,276
Provision for customer rebates, claims and allowances	9,300	9,820
Advanced customer deposits	6,013	5,717
Outstanding checks in excess of cash	3,141	379
Other (2)	4,212	6,168
Accrued expenses	\$30,852	\$ 31,360

(1) Includes a liability related to the Company's self-insured Workers' Compensation program. This program is collateralized by letters of credit in the aggregate amount of \$2,328.

(2) Includes an accrual of \$1,514 for the settlement of a class action lawsuit (See Legal Proceedings section under Note 18).

NOTE 9 - PRODUCT WARRANTY RESERVES

The Company generally provides product warranties related to manufacturing defects and specific performance standards for its products. Product warranty disclosures below have been adjusted for periods in the prior year to conform to the definition for "Warranties" as provided in ASU No. 2014-09, "Revenue from Customers (Topic 606)", as adopted by the Company at the beginning of its fiscal year 2018. Product warranty reserves are included in accrued expenses in the Company's Consolidated Condensed Balance Sheets. The following is a summary of the Company's product warranty activity:

	2018	2017 (As Adjusted)
Product warranty reserve at beginning of period	\$ 1,173	\$ 1,165
Warranty liabilities accrued	2,341	2,491
Warranty liabilities settled	(2,380)	(2,931)
Changes for pre-existing warranty liabilities	(65)	448
Product warranty reserve at end of period	\$ 1,069	\$ 1,173

NOTE 10 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	2018	2017
Revolving credit facility	\$99,219	\$97,708
Notes payable - buildings	11,688	12,419
Acquisition note payable - Robertex	—	791
Notes payable - equipment and other	5,528	8,474
Capital lease obligations	12,096	14,530

Deferred financing costs, net	(486)	(665)
Total long-term debt	128,045	133,257
Less: current portion of long-term debt	7,794	9,811
Long-term debt	\$120,251	\$123,446

Revolving Credit Facility

The revolving credit facility provides for a maximum of \$150,000 of revolving credit, subject to borrowing base availability. The borrowing base is currently equal to specified percentages of the Company's eligible accounts receivable, inventories, fixed assets and real property less reserves established, from time to time, by the administrative agent under the facility. The revolving credit facility matures on September 23, 2021. The revolving credit facility is secured by a first priority lien on substantially all of the Company's assets.

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At the Company's election, advances of the revolving credit facility bear interest at annual rates equal to either (a) LIBOR for 1, 2 or 3 month periods, as selected by the Company, plus an applicable margin ranging between 1.50% and 2.00%, or (b) the higher of the prime rate, the Federal Funds rate plus 0.5%, or a daily LIBOR rate plus 1.00%, plus an applicable margin ranging between 0.50% and 1.00%. The applicable margin is determined based on availability under the revolving credit facility with margins increasing as availability decreases. As of December 29, 2018, the applicable margin on our revolving credit facility was 1.75%. The Company pays an unused line fee on the average amount by which the aggregate commitments exceed utilization of the revolving credit facility equal to 0.375% per annum. The weighted-average interest rate on borrowings outstanding under the revolving credit facility was 4.58% at December 29, 2018 and 4.12% at December 30, 2017.

The revolving credit facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations. The revolving credit facility restricts the Company's borrowing availability if its fixed charge coverage ratio is less than 1.1 to 1.0. During any period that the fixed charge coverage ratio is less than 1.1 to 1.0, the Company's borrowing availability is reduced by \$16,500. As of December 29, 2018, the unused borrowing availability under the revolving credit facility was \$31,886; however, since the Company's fixed charge coverage ratio was less than 1.1 to 1.0, the unused availability accessible by the Company was \$15,386 (the amount above \$16,500) at December 29, 2018.

Notes Payable - Buildings

On November 7, 2014, the Company entered into a ten-year \$8,330 note payable to purchase a previously leased distribution center in Adairsville, Georgia. The note payable is scheduled to mature on November 7, 2024 and is secured by the distribution center. The note payable bears interest at a variable rate equal to one-month LIBOR plus 2.0% and is payable in equal monthly installments of principal of \$35, plus interest calculated on the declining balance of the note, with a final payment of \$4,165 due on maturity. In addition, the Company entered into an interest rate swap with an amortizing notional amount effective November 7, 2014 which effectively fixes the interest rate at 4.50%.

On January 23, 2015, the Company entered into a ten-year \$6,290 note payable to finance an owned facility in Saraland, Alabama. The note payable is scheduled to mature on January 7, 2025 and is secured by the facility. The note payable bears interest at a variable rate equal to one-month LIBOR plus 2.0% and is payable in equal monthly installments of principal of \$26, plus interest calculated on the declining balance of the note, with a final payment of \$3,145 due on maturity. In addition, the Company entered into a forward interest rate swap with an amortizing notional amount effective January 7, 2017 which effectively fixes the interest rate at 4.30%.

Acquisition Note Payable - Development Authority of Gordon County

On November 2, 2012, the Company signed a 6.00% seller-financed note of \$5,500 with Lineage PCR, Inc. ("Lineage") related to the acquisition of the continuous carpet dyeing facility in Calhoun, Georgia. Effective December 28, 2012, through a series of agreements between the Company, the Development Authority of Gordon County, Georgia (the "Authority") and Lineage, obligations with identical payment terms as the original note to Lineage were now payment obligations to the Authority. These transactions were consummated in order to provide a tax abatement to the Company related to the real estate and equipment at this facility. The tax abatement plan provided for abatement for certain components of the real and personal property taxes for up to ten years. At any time, the Company had the

option to pay off the obligation, plus a nominal amount. The debt to the Authority bore interest at 6.00% and was payable in equal monthly installments of principal and interest of \$106 over 57 months. The note matured on November 2, 2017 and the final installment was paid at that time.

Acquisition Note Payable - Robertex

On July 1, 2013, the Company signed a 4.50% seller-financed note of \$4,000, which was recorded at a fair value of \$3,749, with Robert P. Rothman related to the acquisition of Robertex Associates, LLC ("Robertex") in Calhoun, Georgia. The note was payable in five annual installments of principal of \$800 plus interest. The note matured on June 30, 2018.

Notes Payable - Equipment and Other

The Company's equipment financing notes have terms ranging from 1 to 7 years, bear interest ranging from 1.00% to 7.68% and are due in monthly installments through their maturity dates. The Company's equipment financing notes are secured by the specific equipment financed and do not contain any financial covenants.

Capital Lease Obligations

The Company's capitalized lease obligations have terms ranging from 3 to 7 years, bear interest ranging from 3.55% to 7.76% and are due in monthly or quarterly installments through their maturity dates. The Company's capital lease obligations are secured by the specific equipment leased.

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Interest Payments and Debt Maturities

Cash paid for interest for continuing operations was \$6,290 in 2018, \$5,373 in 2017, and \$5,088 in 2016. Maturities of long-term debt for periods following December 29, 2018 are as follows:

	Long-Term Debt	Capital Leases (See Note 18)	Total
2019	\$ 3,841	\$ 3,953	\$ 7,794
2020	1,873	3,804	5,677
2021	100,957	3,157	104,114
2022	1,001	945	1,946
2023	731	237	968
Thereafter	8,032	—	8,032
Total maturities of long-term debt	\$ 116,435	\$ 12,096	\$ 128,531
Deferred financing costs, net	(486)	—	(486)
Total long-term debt	\$ 115,949	\$ 12,096	\$ 128,045

NOTE 11 - FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange value of an asset or a liability in an orderly transaction between market participants. The fair value guidance outlines a valuation framework and establishes a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and disclosures. The hierarchy consists of three levels as follows:

Level 1 - Quoted market prices in active markets for identical assets or liabilities as of the reported date;

Level 2 - Other than quoted market prices in active markets for identical assets or liabilities, quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other than quoted prices for assets or liabilities and prices that are derived principally from or corroborated by market data by correlation or other means; and

Level 3 - Measurements using management's best estimate of fair value, where the determination of fair value requires significant management judgment or estimation.

The following table reflects the fair values of assets and liabilities measured and recognized at fair value on a recurring basis on the Company's Consolidated Balance Sheets as of December 29, 2018 and December 30, 2017:

	2018	2017	Fair Value Hierarchy Level
Assets:			
Interest rate swaps (1)	\$ 36	\$ —	Level 2
Liabilities:			
Interest rate swaps (1)	\$ 1,008	\$ 2,229	Level 2

Contingent consideration (2) — 25 Level 3

The Company uses certain external sources in deriving the fair value of the interest rate swaps. The interest rate swaps were valued using observable inputs (e.g., LIBOR yield curves, credit spreads). Valuations of interest rate (1) swaps may fluctuate considerably from period-to-period due to volatility in underlying interest rates, which are driven by market conditions and the duration of the instrument. Credit adjustments could have a significant impact on the valuations due to changes in credit ratings of the Company or its counterparties.

(2) As a result of the Robertex acquisition in 2013, a contingent consideration liability was recorded by the Company.

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Changes in the fair value measurements using significant unobservable inputs (Level 3) during the years ending December 29, 2018 and December 30, 2017 were as follows:

	2018	2017
Beginning balance	\$25	\$200
Fair value adjustments	1	(163)
Settlements	(26)	(12)
Ending balance	\$—	\$25

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during 2018 or 2017. If any, the Company recognizes the transfers in or transfers out at the end of the reporting period.

The carrying amounts and estimated fair values of the Company's financial instruments are summarized as follows:

	2018		2017	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
Financial assets:				
Cash and cash equivalents	\$18	\$ 18	\$19	\$ 19
Notes receivable, including current portion	282	282	282	282
Interest rate swaps	36	36	—	—
Financial liabilities:				
Long-term debt and capital leases, including current portion	128,045	124,242	133,257	120,203
Interest rate swaps	1,008	1,008	2,229	2,229

The fair values of the Company's long-term debt and capital leases were estimated using market rates the Company believes would be available for similar types of financial instruments and represent level 2 measurements. The fair values of cash and cash equivalents and notes receivable approximate their carrying amounts due to the short-term nature of the financial instruments.

NOTE 12 - DERIVATIVES

The Company's earnings, cash flows and financial position are exposed to market risks relating to interest rates. It is the Company's policy to minimize its exposure to adverse changes in interest rates and manage interest rate risks inherent in funding the Company with debt. The Company addresses this risk by maintaining a mix of fixed and floating rate debt and entering into interest rate swaps for a portion of its variable rate debt to minimize interest rate volatility.

The following is a summary of the Company's interest rate swaps as of December 29, 2018:

Type	Notional Amount	Effective Date	Fixed Rate	Variable Rate
Interest rate swap	\$25,000	September 1, 2016 through September 1, 2021	3.105%	1 Month LIBOR
Interest rate swap	\$25,000	September 1, 2015 through September 1, 2021	3.304%	1 Month LIBOR
Interest rate swap	\$6,629	(1) November 7, 2014 through November 7, 2024	4.500%	1 Month LIBOR
Interest rate swap	\$5,058	(2) January 7, 2017 through January 7, 2025	4.300%	1 Month LIBOR

(1) Interest rate swap notional amount amortizes by \$35 monthly to maturity.

(2) Interest rate swap notional amount amortizes by \$26 monthly to maturity.

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The following table summarizes the fair values of derivative instruments included in the Company's Consolidated Balance Sheets:

	Location on Consolidated Balance Sheets	Fair Value	
		2018	2017
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps - current portion	Prepays and other current assets	\$14	\$—
Interest rate swaps - long-term portion	Other Assets	22	—
Total Asset Derivatives		\$36	\$—
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps, current portion	Accrued Expenses	\$335	\$842
Interest rate swaps, long-term portion	Other Long-Term Liabilities	673	1,387
Total Liability Derivatives		\$1,008	\$2,229

The following tables summarize the pre-tax impact of derivative instruments on the Company's financial statements:

	Amount of Gain or (Loss) Recognized in AOCIL on the effective portion of the Derivative		
	2018	2017	2016
	Derivatives designated as hedging instruments:		
Cash flow hedges - interest rate swaps	\$531	\$180	\$(263)

	Amount of Gain or (Loss) Reclassified from AOCIL on the effective portion into Income (1)(2)		
	2018	2017	2016
	Derivatives designated as hedging instruments:		
Cash flow hedges - interest rate swaps	\$(673)	\$(1,250)	\$(1,291)

(1) The amount of gain (loss) reclassified from AOCIL is included in interest expense on the Company's Consolidated Statements of Operations.

(2) The amount of loss expected to be reclassified from AOCIL into earnings during the next 12 months subsequent to fiscal 2018 is \$322.

The amount of gain (loss) recognized in income on the ineffective portion of interest rate swaps, if any, is included in other (income) expense, net on the Company's Consolidated Statements of Operations. There was no ineffective portion for the periods presented.

NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company sponsors a 401(k) defined contribution plan that covers a significant portion, or approximately 85% of the Company's associates. This plan includes a mandatory Company match on the first 1% of participants' contributions. The Company matches the next 2% of participants' contributions if the Company meets prescribed earnings levels. The plan also provides for additional Company contributions above the 3% level if the Company attains certain additional performance targets. Matching contribution expense for this 401(k) plan was \$448 in 2018, \$484 in 2017 and \$425 in 2016.

Additionally, the Company sponsors a 401(k) defined contribution plan that covers those associates at one facility who are under a collective-bargaining agreement, or approximately 15% of the Company's associates. Under this plan, the Company generally matches participants' contributions, on a sliding scale, up to a maximum of 2.75% of the participant's earnings. Matching contribution expense for the collective-bargaining 401(k) plan was \$123 in 2018, \$125 in 2017 and \$71 in 2016.

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Non-Qualified Retirement Savings Plan

The Company sponsors a non-qualified retirement savings plan that allows eligible associates to defer a specified percentage of their compensation. The obligations owed to participants under this plan were \$13,943 at December 29, 2018 and \$17,010 at December 30, 2017 and are included in other long-term liabilities in the Company's Consolidated Balance Sheets. The obligations are unsecured general obligations of the Company and the participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company utilizes a Rabbi Trust to hold, invest and reinvest deferrals and contributions under the plan. Amounts are invested in Company-owned life insurance in the Rabbi Trust and the cash surrender value of the policies was \$13,822 at December 29, 2018 and \$18,232 at December 30, 2017 and is included in other assets in the Company's Consolidated Balance Sheets.

Multi-Employer Pension Plan

The Company contributes to a multi-employer pension plan under the terms of a collective-bargaining agreement that covers its union-represented employees. These union-represented employees represented approximately 15% of the Company's total employees. The risks of participating in multi-employer plans are different from single-employer plans. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. If the Company chooses to stop participating in the multi-employer plan, the Company may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company's participation in the multi-employer pension plan for 2018 is provided in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three digit plan number. The most recent Pension Protection Act (PPA) zone status available in 2018 and 2017 is for the plan's year-end at 2017 and 2016, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates a plan for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/Implemented (1)	Contributions (2)			Surcharge Imposed (1)	Expiration Date of Collective-Bargaining Agreement
		2018	2017		2018	2017	2016		
The Pension Plan of the National Retirement Fund	13-6130178-001	Red	Red	Implemented	\$320	\$313	\$274	Yes	6/1/2019

(1) The collective-bargaining agreement requires the Company to contribute to the plan at the rate of \$0.47 per compensated hour for each covered employee. The Company will make additional contributions, as mandated by law,

in accordance with the fund's 2010 Rehabilitation Plan which required a surcharge equal to \$0.03 per hour (from \$0.47 to \$0.50) effective June 1, 2014 to May 31, 2015, a surcharge equal to \$0.03 per hour (from \$0.50 to \$0.53) effective June 1, 2015 to May 31, 2016, a surcharge equal to \$0.02 per hour (from \$0.53 to \$0.55) effective June 1, 2016 to May 31, 2017, a surcharge equal to \$0.03 per hour (from \$0.55 to \$0.58) effective June 1, 2017 to May 31, 2018, and a surcharge equal to \$0.02 per hour (from \$0.58 to \$0.60) effective June 1, 2018 to May 31, 2019. Based upon current employment and benefit levels, the Company's contributions to the multi-employer pension plan are expected to be approximately \$323 for 2019.

(2) The Company's contributions to the plan do not represent more than 5% of the total contributions to the plan for the most recent plan year available.

Postretirement Plans

The Company sponsors a postretirement benefit plan that provides life insurance to a limited number of associates upon retirement as part of a collective bargaining agreement.

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Information about the benefit obligation and funded status of the Company's postretirement benefit plan is summarized as follows:

	2018	2017
Change in benefit obligation:		
Benefit obligation at beginning of year	\$325	\$314
Service cost	8	7
Interest cost	17	16
Actuarial (gain) loss	(18)	(11)
Benefits paid	(1)	(1)
Benefit obligation at end of year	331	325
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contributions	1	1
Benefits paid	(1)	(1)
Fair value of plan assets at end of year	—	—
Unfunded amount	\$(331)	\$(325)

The balance sheet classification of the Company's liability for the postretirement benefit plan is summarized as follows:

	2018	2017
Accrued expenses	\$15	\$14
Other long-term liabilities	316	311
Total liability	\$331	\$325

Benefits expected to be paid on behalf of associates for the postretirement benefit plan during the period 2019 through 2028 are summarized as follows:

Years	Postretirement Plan
2019	\$ 15
2020	14
2021	14
2022	14
2023	14
2024 - 2028	73

Assumptions used to determine the benefit obligation of the Company's postretirement benefit plan are summarized as follows:

	2018	2017
Weighted-average assumptions as of year-end:		
Discount rate (benefit obligation)	4.00%	4.00%

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Components of net periodic benefit cost (credit) for the postretirement plan are summarized as follows:

	2018	2017	2016
Service cost	\$8	\$7	\$7
Interest cost	17	16	15
Amortization of prior service credits	(4)	(4)	(4)
Recognized net actuarial gains	(28)	(30)	(33)
Net periodic benefit cost (credit)	\$(7)	\$(11)	\$(15)

Pre-tax amounts included in AOCIL for the Company's postretirement benefit plan at 2018 are summarized as follows:

	Postretirement Benefit Plan	
	Balance at 2018	2019 Expected Amortization
Prior service credits	\$(3)	\$ (4)
Unrecognized actuarial gains	(372)	(27)
Totals	\$(375)	\$ (31)

NOTE 14 - INCOME TAXES

The provision (benefit) for income taxes on income (loss) from continuing operations consists of the following:

	2018	2017	2016
Current			
Federal	\$(178)	\$278	\$(396)
State	(116)	(950)	34
Total current	(294)	(672)	(362)
Deferred			
Federal	(434)	7,535	(3,003)
State	(103)	646	(257)
Total deferred	(537)	8,181	(3,260)
Income tax provision (benefit)	\$(831)	\$7,509	\$(3,622)

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Differences between the provision (benefit) for income taxes and the amount computed by applying the statutory federal income tax rate to income (loss) from continuing operations before taxes are summarized as follows:

	2018	2017	2016
Federal statutory rate	21 %	35 %	35 %
Statutory rate applied to income (loss) from continuing operations before taxes	\$(4,685)	\$(635)	\$(3,090)
Plus state income taxes, net of federal tax effect	(173)	(198)	(145)
Total statutory provision (benefit)	(4,858)	(833)	(3,235)
Effect of differences:			
Nondeductible meals and entertainment	90	161	148
Executive compensation limitation	258	—	—
Federal tax credits	(286)	(200)	(395)
Reserve for uncertain tax positions	27	8	31
Goodwill	—	—	(13)
Change in valuation allowance	3,990	6,470	106
Tax reform	—	1,749	—
Stock-based compensation	82	146	—
Other items	(134)	8	(264)
Income tax provision (benefit)	\$(831)	\$7,509	\$(3,622)

On December 22, 2017, the President signed the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act, among other things, lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. The Company substantially completed its provisional analysis of the income tax effects of the Tax Act and recorded a reasonable estimate of such effects during the fourth quarter of 2017. Pursuant to Staff Accounting Bulletin No. 118, the Company has completed its analysis and all adjustments have been included in income from continuing operations as an adjustment to income tax expense.

The income tax benefit for the twelve months ended December 29, 2018 was \$831. During the fourth quarter of 2017, the Company recorded a full valuation allowance against the deferred tax assets resulting in only refundable credits and a small amount of state taxes being recognized in the tax benefit for 2018. The Company is in a net deferred tax liability position of \$568 and \$1,105 at December 29, 2018 and December 30, 2017 respectively. These amounts are included in other long-term liabilities in the Company's Consolidated Balance Sheets.

The income tax expense for 2017 was \$7,509, which included a charge of \$1,749 related to the re-measurement of certain net deferred tax assets using the lower U.S. corporate income tax rate and a charge of \$6,420 to increase our valuation allowance related to our net deferred tax asset. The majority of the increase in the valuation allowance is related to the revised treatment of net operating losses under the Tax Act. Absent the impact of the Tax Act, our effective income tax benefit rate for 2017 would have been 36.4%.

In 2016, the Company increased valuation allowances by \$106 related to state income tax loss carryforwards and state income tax credit carryforwards to reflect the estimated amount of deferred tax assets that may not be realized during the carryforward periods.

Income tax payments, net of (income tax refunds) received for continuing and discontinued operations were \$20 in 2018, \$44 in 2017 and \$(190) in 2016.

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Significant components of the Company's deferred tax assets and liabilities are as follows:

	2018	2017
Deferred tax assets:		
Inventories	\$4,128	\$3,146
Retirement benefits	1,718	2,200
State net operating losses	4,142	4,196
Federal net operating losses	4,560	3,204
State tax credit carryforwards	1,688	1,963
Federal tax credit carryforwards	3,721	3,365
Allowances for bad debts, claims and discounts	2,199	2,373
Other	5,646	3,649
Total deferred tax assets	27,802	24,096
Valuation allowance	(16,993)	(12,994)
Net deferred tax assets	10,809	11,102
Deferred tax liabilities:		
Property, plant and equipment	11,377	12,207
Total deferred tax liabilities	11,377	12,207
Net deferred tax liability	\$(568)	\$(1,105)

At December 29, 2018, \$4,560 of deferred tax assets related to approximately \$21,712 of federal net operating loss carryforwards and \$4,142 of deferred tax assets related to approximately \$76,797 of state net operating loss carryforwards. In addition, \$3,721 of federal tax credit carryforwards and \$1,688 of state tax credit carryforwards were available to the Company. The federal net operating loss carryforwards and the federal tax credit carryforwards originating prior to 2018 will expire between 2029 and 2039. The state net operating loss carryforwards and the state tax credit carryforwards will expire between 2018 and 2039. A valuation allowance of \$16,993 is recorded to reflect the estimated amount of deferred tax assets that may not be realized during the carryforward periods. At December 29, 2018, the Company is in a net deferred tax liability position of \$568 which is included in other liabilities in the Company's Consolidated Balance Sheets.

Tax Uncertainties

Unrecognized tax benefits were \$441 at December 29, 2018, \$414 at December 30, 2017 and \$406 at December 31, 2016. Such benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of December 29, 2018, December 30, 2017, or December 31, 2016.

The following is a summary of the change in the Company's unrecognized tax benefits:

	2018	2017	2016
Balance at beginning of year	\$414	\$406	\$375
Additions based on tax positions taken during a current period	27	8	31
Reductions related to settlement of tax matters	—	—	—
Balance at end of year	\$441	\$414	\$406

The Company and its subsidiaries are subject to United States federal income taxes, as well as income taxes in a number of state jurisdictions. The tax years subsequent to 2014 remain open to examination for federal income taxes. The majority of state jurisdictions remain open for tax years subsequent to 2014. A few state jurisdictions remain open to examination for tax years subsequent to 2013.

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NOTE 15 - COMMON STOCK AND EARNINGS (LOSS) PER SHARE

Common & Preferred Stock

The Company's charter authorizes 80,000,000 shares of Common Stock with a \$3 par value per share and 16,000,000 shares of Class B Common Stock with a \$3 par value per share. Holders of Class B Common Stock have the right to twenty votes per share on matters that are submitted to Shareholders for approval and to dividends in an amount not greater than dividends declared and paid on Common Stock. Class B Common Stock is restricted as to transferability and may be converted into Common Stock on a one share for one share basis. The Company's charter also authorizes 200,000,000 shares of Class C Common Stock, \$3 par value per share, and 16,000,000 shares of Preferred Stock. No shares of Class C Common Stock or Preferred Stock have been issued.

Earnings (Loss) Per Share

The Company's unvested stock awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are considered participating securities and are included in the computation of earnings per share. The accounting guidance requires additional disclosure of EPS for common stock and unvested share-based payment awards, separately disclosing distributed and undistributed earnings. Undistributed earnings represent earnings that were available for distribution but were not distributed. Common stock and unvested share-based payment awards earn dividends equally. All earnings were undistributed in all periods presented.

The following table sets forth the computation of basic and diluted earnings (loss) per share from continuing operations:

	2018	2017	2016
Basic earnings (loss) per share:			
Income (loss) from continuing operations	\$(21,479)	\$(9,322)	\$(5,207)
Less: Allocation of earnings to participating securities	—	—	—
Income (loss) from continuing operations available to common shareholders - basic	\$(21,479)	\$(9,322)	\$(5,207)
Basic weighted-average shares outstanding (1)	15,764	15,699	15,638
Basic earnings (loss) per share - continuing operations	\$(1.36)	\$(0.59)	\$(0.33)
Diluted earnings (loss) per share:			
Income (loss) from continuing operations available to common shareholders - basic	\$(21,479)	\$(9,322)	\$(5,207)
Add: Undistributed earnings reallocated to unvested shareholders	—	—	—
Income (loss) from continuing operations available to common shareholders - basic	\$(21,479)	\$(9,322)	\$(5,207)
Basic weighted-average shares outstanding (1)	15,764	15,699	15,638
Effect of dilutive securities:			
Stock options (2)	—	—	—
Directors' stock performance units (2)	—	—	—
Diluted weighted-average shares outstanding (1)(2)	15,764	15,699	15,638
Diluted earnings (loss) per share - continuing operations	\$(1.36)	\$(0.59)	\$(0.33)

(1) Includes Common and Class B Common shares, excluding 570 unvested participating securities, in thousands.

(2)

Shares issuable under stock option plans where the exercise price is greater than the average market price of the Company's Common Stock during the relevant period and directors' stock performance units have been excluded to the extent they are anti-dilutive. Aggregate shares excluded were 422 in 2018, 448 in 2017 and 220 in 2016.

NOTE 16 - STOCK PLANS AND STOCK COMPENSATION EXPENSE

The Company recognizes compensation expense relating to share-based payments based on the fair value of the equity instrument issued and records such expense in selling and administrative expenses in the Company's Consolidated Statements of Operations. The number of shares to be issued is determined by dividing the specified dollar value of the award by the market value per share on the grant date. The Company's stock compensation expense (credit) was \$(29) in 2018, \$940 in 2017 and \$1,324 in 2016. The credit in 2018 is related to the reversal of stock compensation that did not vest.

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2016 Incentive Compensation Plan

On May 3, 2016, the Company's shareholders' approved and adopted the Company's 2016 Incentive Compensation Plan (the "2016 Incentive Compensation Plan") which provides for the issuance of a maximum of 800,000 shares of Common Stock and/or Class B Common Stock for the grant of options, and/or other stock-based or stock-denominated awards to employees, officers, directors, and agents of the Company and its participating subsidiaries. The 2016 Incentive Compensation Plan and the allocation of shares thereunder superseded and replaced The Dixie Group, Inc. Stock Awards Plan, as amended (the "2006 Plan") and the allocation of shares thereunder. The 2006 Plan was terminated with respect to new awards. Awards previously granted under the 2006 Plan continue to be governed by the terms of that plan and are not affected by its termination.

2006 Stock Awards Plan

The Company had a Stock Awards Plan, ("2006 Plan"), as amended, which provided for the issuance of up to 1,800,000 shares of Common Stock and/or Class B Common Stock as stock-based or stock-denominated awards to directors of the Company and to salaried employees of the Company and its participating subsidiaries.

Restricted Stock Awards

Each executive officer has the opportunity to earn a Primary Long-Term Incentive Award of restricted stock and separately receive an award of restricted stock denominated as "Career Shares." The number of shares issued, if any, is based on the market price of the Company's Common Stock at the time of grant of the award, subject to a \$5.00 per share minimum value. Primary Long-Term Incentive Awards vest over three years. For participants over age 60, Career Share Awards fully vest when the participant becomes (i) qualified to retire from the Company and (ii) has retained such shares two years following the grant date. For the participants under age 60, Career Shares vest ratably over five years beginning on the participant's 61st birthday.

On March 12, 2018, the Company granted 297,292 shares of restricted stock to certain key employees. The grant-date fair value of the awards was \$832, or \$2.80 per share, and will be recognized as stock compensation expense over a weighted-average period of 6.1 years from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

On July 30, 2018, the Company granted 10,000 shares of restricted stock to an employee. The grant-date fair value of the award was \$20, or \$2.00 per share and will be recognized as stock compensation over a three-year vesting period from the date the award was granted. The award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

On March 10, 2017, the Company granted 40,000 shares of restricted stock to certain key employees. The grant-date fair value of the awards was \$140, or \$3.50 per share, and will be recognized as stock compensation expense over a three-year vesting period from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the

Company's Common Stock on the grant date.

On September 1, 2017, the Company granted 10,000 shares of restricted stock to a key employee. The grant-date fair value of the award was \$42, or \$4.15 per share, and will be recognized as stock compensation expense over a three-year vesting period from the date the award was granted. The award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

On September 18, 2017, the Company granted 10,000 shares of restricted stock to a key employee. The grant-date fair value of the award was \$41, or \$4.05 per share, and will be recognized as stock compensation expense over a three-year vesting period from the date the award was granted. The award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

On March 11, 2016, the Company issued 149,215 shares of restricted stock to officers and other key employees. The grant-date fair value of the awards was \$651, or \$4.360 per share, and is expected to be recognized as stock compensation expense over a weighted-average period of 8.7 years from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

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Restricted stock activity for the three years ended December 29, 2018 is summarized as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 26, 2015	416,795	\$ 8.90
Granted	149,215	4.36
Vested	(107,318)	8.88
Forfeited	(1,314)	15.68
Outstanding at December 31, 2016	457,378	7.41
Granted	60,000	3.70
Vested	(78,908)	8.79
Forfeited	(4,629)	5.96
Outstanding at December 30, 2017	433,841	6.66
Granted	307,292	2.77
Vested	(64,939)	6.58
Forfeited	(106,196)	9.51
Outstanding at December 29, 2018	569,998	\$ 4.04

As of December 29, 2018, unrecognized compensation cost related to unvested restricted stock was \$1,458. That cost is expected to be recognized over a weighted-average period of 7.7 years. The total fair value of shares vested was approximately \$173, \$276 and \$456 during 2018, 2017 and 2016, respectively.

Stock Performance Units

The Company's non-employee directors receive an annual retainer of \$18 in cash and \$18 in value of Stock Performance Units (subject to a \$5.00 minimum per unit). If market value at the date of the grants is above \$5.00 per share; there is no reduction in the number of units issued. However, if the market value at the date of the grants is below \$5.00, units will be reduced to reflect the \$5.00 per share minimum. Upon retirement, the Company issues the number of shares of Common Stock equivalent to the number of Stock Performance Units held by non-employee directors at that time. As of December 29, 2018, 123,321 Stock Performance Units were outstanding under this plan. As of December 29, 2018, unrecognized compensation cost related to Stock Performance Units was \$24. That cost is expected to be recognized over a weighted-average period of 0.3 years.

Stock Options

Options granted under the Company's 2006 Plan and the 2016 Plan were exercisable for periods determined at the time the awards are granted. Effective 2009, the Company established a \$5.00 minimum exercise price on all options granted.

On May 30, 2017, the Company granted 203,000 options with a market condition to certain key employees of the Company at a weighted-average exercise price of \$4.30. The grant-date fair value of these options was \$306. These options vest over a two-year period and require the Company's stock to trade at or above \$7.00 for five consecutive trading days after the two-year period and within five years of issuance to meet the market condition.

The fair value of each option was estimated on the date of grant using a lattice model. Expected volatility was based on historical volatility of the Company's stock, using the most recent period equal to the expected life of the options. The risk-free interest rate was based on the U.S. Treasury yield for a term equal to the expected life of the option at the time of grant. The Company uses historical exercise behavior data of similar employee groups to determine the expected life of options.

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The following weighted-average assumptions were used to estimate the fair value of stock options granted during the year ended December 29, 2018:

	2018 (1)	2017	2016 (1)
Expected Volatility	—%	47.80%	—%
Risk-free interest rate	—%	1.79 %	—%
Dividend yield	—%	—	—%
Expected life of options (yrs)	0	5	0

(1) No options were granted during the years ended December 29, 2018 and December 31, 2016.

Option activity for the three years ended December 29, 2018 is summarized as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Fair Value of Options Granted During the Year
Outstanding at December 26, 2015	103,500	\$ 5.00		\$ —
Granted	—	—		—
Exercised	—	—		—
Forfeited	—	—		—
Outstanding at December 31, 2016	103,500	5.00		—
Granted	203,000	4.30		1.51
Exercised	—	—		—
Forfeited	—	—		—
Outstanding at December 30, 2017	306,500	4.54		—
Granted	—	—		—
Exercised	—	—		—
Forfeited	(8,000)	4.17		—
Outstanding at December 29, 2018	298,500	4.55	2.5	\$ —
Options exercisable at:				
December 31, 2016	103,500	\$ 5.00		—
December 30, 2017	103,500	5.00		—
December 29, 2018	103,500	5.00	0.8	—

At December 29, 2018, there was no intrinsic value of outstanding stock options and no intrinsic value of exercisable stock options. The intrinsic value of stock options exercised during 2018, 2017 and 2016 was \$0, \$0 and \$0, respectively. At December 29, 2018, unrecognized compensation expense related to unvested stock options was \$72 and is expected to be recognized over a weighted-average period of 0.4 years.

THE DIXIE GROUP, INC.
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NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Components of accumulated other comprehensive income (loss), net of tax, are as follows:

	Interest Rate Swaps	Post-Retirement Liabilities	Total
Balance at December 26, 2015	(2,853)	280	(2,573)
Unrealized loss on interest rate swaps, net of tax of \$100	(163)	—	(163)
Reclassification of loss into earnings from interest rate swaps, net of tax of \$491	800	—	800
Unrecognized net actuarial loss on postretirement benefit plans, net of tax of \$1	—	(2)	(2)
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of \$13	—	(20)	(20)
Reclassification of prior service credits into earnings from postretirement benefit plans, net of tax of \$2	—	(2)	(2)
Balance at December 31, 2016	(2,216)	256	(1,960)
Unrealized gain on interest rate swaps, net of tax of \$68	112	—	112
Reclassification of loss into earnings from interest rate swaps, net of tax of \$475	775	—	775
Unrecognized net actuarial gain on postretirement benefit plans, net of tax of \$4	—	7	7
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of \$11	—	(19)	(19)
Reclassification of prior service credits into earnings from postretirement benefit plans, net of tax of \$1	—	(3)	(3)
Reclassification of stranded tax effects	(258)	47	(211)
Balance at December 30, 2017	(1,587)	288	(1,299)
Unrealized gain on interest rate swaps, net of tax of \$0	531	—	531
Reclassification of loss into earnings from interest rate swaps, net of tax of \$0	673	—	673
Unrecognized net actuarial gain on postretirement benefit plans, net of tax of \$0	—	18	18
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of \$0	—	(27)	(27)
Reclassification of prior service credits into earnings from postretirement benefit plans, net of tax of \$0	—	(4)	(4)
Balance at December 29, 2018	\$(383)	\$ 275	\$(108)

NOTE 18 - COMMITMENTS AND CONTINGENCIES

Commitments

The Company had purchase commitments of \$2,730 at December 29, 2018, primarily related to machinery and equipment. The Company enters into fixed-price contracts with suppliers to purchase natural gas to support certain manufacturing processes. The Company had contract purchases of \$428 in 2018, \$640 in 2017 and \$855 in 2016. At December 29, 2018, the Company has commitments to purchase natural gas of \$252 for 2019 and \$72 for 2020.

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The Company leases certain equipment under capital leases and certain buildings, machinery and equipment under operating leases. Commitments for minimum rentals under non-cancelable leases, including any applicable rent escalation clauses, are as follows:

	Capital Leases	Operating Leases
2019	\$4,590	\$ 3,002
2020	4,205	2,533
2021	3,333	2,121
2022	989	1,667
2023	244	882
Thereafter	—	3,155
Total commitments	13,361	13,360
Less amounts representing interest (1,265)	—	—
Total	\$ 12,096	\$ 13,360

Rental expense was approximately \$4,453, \$3,687 and \$3,575 during 2018, 2017 and 2016, respectively.

Property, plant and equipment includes machinery and equipment under capital leases which have asset cost and accumulated depreciation of \$22,400 and \$7,866, respectively, at December 29, 2018, and \$25,250 and \$8,300, respectively, at December 30, 2017.

Contingencies

The Company assesses its exposure related to legal matters, including those pertaining to product liability, safety and health matters and other items that arise in the regular course of its business. If the Company determines that it is probable a loss has been incurred, the amount of the loss, or an amount within the range of loss, that can be reasonably estimated will be recorded.

Environmental Remediation

The Company accrues for losses associated with environmental remediation obligations when such losses are probable and estimable. Remediation obligations are accrued based on the latest available information and are recorded at undiscounted amounts. The Company regularly monitors the progress of environmental remediation. If studies indicate that the cost of remediation has changed from the previous estimate, an adjustment to the liability would be recorded in the period in which such determination is made. (See Note 21).

Legal Proceedings

The Company has been sued, together with the 3M Company and approximately 30 other carpet manufacturers, by the Gadsden (Alabama) Water Works in the circuit court of Etowah County Alabama [The Water Works and Sewer Board of the City of Gadsden v. 3M Company, et al, civil action No. 31-CV-2016-900676.00] and by the Town of Centre (Alabama) Water Works in the circuit court of Cherokee County Alabama [The Water Works and Sewer Board of the Town of Centre v. 3M Company, et al, civil action No. 13-CV-2017-900049.00]. Both cases seek monetary damages and injunctive relief related to the use of certain chemical compounds in the manufacture and finishing of

carpet products “in and around Dalton Georgia.” On motion of the defendants, the cases were removed to the U.S. District Court for the Northern District of Alabama (Middle Division) Case No. 4:16-CV-01755-SGC and Case No. 4:17-CV-01026-KOB. Subsequently, the Gadsden Water Works filed a motion to have the case remanded back to the state court and such motion has been granted. Currently, the Company joined several other co-defendants in filing a Petition for Writ of Mandamus with the Alabama Supreme Court asking for an Order directing the trial court to grant the Company’s and other codefendants’ motions to dismiss the Alabama-filed actions for lack of personal jurisdiction. The Petitions have been consolidated by the Alabama Supreme Court with the Town of Centre (Alabama) matter (described above). The Petitions are still pending and there is no statutory deadline for the court to issue a decision. The lawsuits allege that perflourinated compounds (“PFC”), perflourinated acid (“PFOA”) and perfluorooctane sulfonate (“PFOS”) manufactured by 3M were used in certain finishing and treatment processes by the defendants and, as a consequence of such use, were subsequently either discharged into or leached into the water systems around Dalton, Georgia. The Complaints seek damages that exceed \$10, but are otherwise unspecified in amount in addition to injunctive relief and punitive damages. The Company intends to defend the matters vigorously and is unable to estimate the potential exposure to loss, if any, at this time.

On November 16, 2018 the Superior Court of the State of California granted preliminary approval of a class action settlement in the matter of Carlos Garcia v. Fabrica International, Inc. et al Orange County Superior Court Case No. 30-2017-00949461-CU-OE-CXC. The court further approved the procedures for Settlement Class Members to opt-out of or object to the Settlement. The terms

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of the settlement provide that Fabrica, a wholly owned subsidiary of the Company, has agreed to pay \$1,514 (the "Gross Settlement Amount") to fully resolve all claims in the Lawsuit, including payments to Settlement Class Members, Class Counsel's attorneys' fees and expenses, settlement administration costs, and the Class Representative's Service Award. The amount of the proposed settlement was recorded during the quarter ended June 30, 2018. The deadline for class members to opt-out was February 1, 2019. The deadline for the plaintiff to file a motion for final approval of the class action settlement is March 29, 2019. The final fairness hearing is scheduled for April 12, 2019.

The Company is one of multiple parties to three current lawsuits filed in Madison County Illinois, styled Brenda Bridgeman, Individually and as Special Administrator of the Estate of Robert Bridgeman, Deceased, vs. American Honda Motor Co., Inc., f/k/a Metropolitan Life Insurance Co., et al No. 15-L-374, styled Charles Anderson, Pltf., vs. 3M Company, et al, No. 17-L-525 and styled Danny Atkins and Pamela Atkins, Pltfs., vs. Aurora Pump Company, et al. No. 18-L-2. All three lawsuits entail a claim for damages to be determined in excess of \$50 filed on behalf of either a former employee or the estate of an individual which alleges that the deceased contracted mesothelioma as a result of exposure to asbestos while employed by the Company. Discovery in each matter is ongoing, and a tentative trial date has been set for one of the cases. The Company has denied liability, is defending the matters vigorously and is unable to estimate its potential exposure to loss, if any, at this time. In August of 2017, the lawsuit styled Sandra D. Watts, Individually and as Special Administrator of the Estate of Dianne Averett, Deceased vs. 4520 Corp., Inc. f/k/a Benjamin F. Shaw Company, et al No. 12-L-2032 was placed in the category of "special closed with settlements and bankruptcy claims pending" to all remaining defendants. In March 2018, the lawsuit styled Charles Anderson, Individually and as Special Administrator of the Estate of Charles Anderson, Deceased vs. 3M Company, et al, No. 17-L-525 was dismissed without prejudice. In October 2018, the lawsuit styled Danny Atkins and Pamela Atkins, Pltfs., vs. Aurora Pump Company, et al. No. 18-L-2 was dismissed without prejudice.

NOTE 19 - OTHER EXPENSE, NET

Other operating expense, net is summarized as follows:

	2018	2017	2016
Other operating expense, net:			
(Gain) loss on property, plant and equipment disposals	\$(1,047)	\$170	\$725
(Gain) loss on currency exchanges	126	(72)	167
Amortization of intangibles	305	306	305
Retirement expenses	64	155	154
BP settlement gain (1)	—	—	(841)
Miscellaneous (income) expense	1,010	(118)	(109)
Other operating expense, net	\$458	\$441	\$401

On November 21, 2016, the Company entered into a full and final release agreement with BP Exploration and Production, Inc. and various related entities pursuant to which the Company released any and all claims related to (1) the Deepwater Horizon oil spill which occurred on April 20, 2010. In exchange for this release, the Company received a net amount of \$841 from the settlement.

Other expense, net is summarized as follows:

2018 2017 2016

Other expense, net:			
Post-retirement income	(15)	(18)	(21)
Miscellaneous (income) expense	18	39	22
Other expense, net	\$ 3	\$21	\$ 1

NOTE 20 - FACILITY CONSOLIDATION AND SEVERANCE EXPENSES, NET

2014 Warehousing, Distribution & Manufacturing Consolidation Plan

The Company developed a plan to align its warehousing, distribution and manufacturing to support its growth and manufacturing strategy resulting in improved distribution capabilities and customer service. The key element and first major step of this plan was the acquisition of a facility to serve as a finished goods warehouse and a cut-order and distribution center in Adairsville, Georgia. Costs related to the consolidation included moving and relocation expenses, information technology expenses and expenses relating to conversion and realignment of equipment. In addition, this plan included the elimination of both carpet dyeing and yarn dyeing in the Company's Atmore, Alabama facility designed to more fully accommodate the distribution and manufacturing realignment.

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As a result, the dyeing operations in Atmore were moved to the Company's continuous dyeing facility, skein dyeing operation and other outside dyeing processors.

To complete the Warehousing, Distribution & Manufacturing Consolidation Plan, the Company moved its Saraland rug operation from an expiring leased building to an owned facility in March 2016. The Company completed this consolidation plan during 2016. As a result of eliminating its dyeing operations in Atmore, Alabama, the Company disposed of its waste water treatment plant in 2014. Subsequently, after extensive testing, it was determined that the Company still had some contaminants above background levels and installed a soil cap to finalize the cleanup of the site of the Company's former waste water treatment plant.

2015 Corporate Office Consolidation Plan

In April 2015, the Company's Board of Directors approved the Corporate Office Consolidation Plan, to cover the costs of consolidating three of the Company's existing leased divisional and corporate offices to a single leased facility located in Dalton, Georgia. The Company paid a fee to terminate one of the leased facilities, did not renew a second facility and vacated the third facility. Related to the vacated facility, the Company recorded the estimated costs related to the fulfillment of its contractual lease obligation and on-going facility maintenance, net of an estimate of sub-lease expectations. Accordingly, if the estimates differ, the Company would record an additional charge or benefit, as appropriate. Costs related to the consolidation included the lease termination fee, contractual lease obligations and moving costs.

2017 Profit Improvement Plan

During the fourth quarter of 2017, the Company announced a Profit Improvement Plan to improve profitability through lower cost and streamlined decision making and aligning processes to maximize efficiency. The plan includes consolidating the management of the Company's two commercial brands, Atlas Carpet Mills and Masland Contract, under one management team, sharing operations in sales, marketing, product development and manufacturing. Specific to this plan includes focusing nearly all commercial solution dyed make-to-order production in our Atmore, Alabama operations where the Company has developed such make-to-order capabilities over the last 5 years. Further, the Company is aligning its west coast production facilities, better utilizing its west coast real estate by moving production to its Porterville, California and Atmore, Alabama operations and preparing for more efficient distribution of its west coast products. Furthermore, the Company is re-configuring its east coast distribution facilities to provide more efficient distribution of its products. In addition, the Company had reductions in related support functions such as accounting and information services.

Costs related to the facility consolidation plans are summarized as follows:

				As of December 29, 2018	
Accrued Balance at December 30, 2017	2018 Expenses (1)	2018 Cash Payments	Accrued Balance at December 29, 2018	Total Costs Incurred to Date	Total Expected Costs
\$ —	\$ —	\$ —	\$ —	\$7,440	\$7,440

Warehousing, Distribution and Manufacturing
Consolidation Plan

Corporate Office Consolidation Plan	171	9	82	98	816	816
Profit Improvement Plan	334	3,158	2,646	846	3,794	6,055
Total All Plans	\$ 505	\$ 3,167	\$ 2,728	\$ 944	\$12,050	\$14,311

Asset Impairments	\$ —	\$ 3,320	\$ —	\$ —	\$3,320	\$ 3,320
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	Accrued Balance at December 31, 2016	2017 Expenses (1)	2017 Cash Payments	Accrued Balance at December 30, 2017
Warehousing, Distribution and Manufacturing Consolidation Plan	\$ 266	\$ (4)	\$ 262	\$ —
Corporate Office Consolidation Plan	248	4	81	171
Profit Improvement Plan	\$ —	\$ 636	\$ 302	\$ 334
Total All Plans	\$ 514	\$ 636	\$ 645	\$ 505

(1) Costs incurred under these plans are classified as "facility consolidation and severance expenses, net" in the Company's Consolidated Statements of Operations.

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NOTE 21 - DISCONTINUED OPERATIONS

The Company has either sold or discontinued certain operations that are accounted for as "Discontinued Operations" under applicable accounting guidance. Discontinued operations are summarized as follows:

	2018	2017	2016
Income (loss) from discontinued operations:			
Workers' compensation costs from former textile operations	\$212	\$(155)	\$(2)
Environmental remediation costs from former textile operations	(117)	(225)	(216)
Income (loss) from discontinued operations, before taxes	\$95	\$(380)	\$(218)
Income tax benefit	—	(147)	(87)
Income (loss) from discontinued operations, net of tax	\$95	\$(233)	\$(131)
Income on disposal of Carousel discontinued operations before income taxes	\$—	\$—	\$100
Income tax provision	—	—	40
Income on disposal of discontinued operations, net of tax	\$—	\$—	\$60

Undiscounted reserves are maintained for the self-insured workers' compensation obligations related to the Company's former textile operations. These reserves are administered by a third-party workers' compensation service provider under the supervision of Company personnel. Such reserves are reassessed on a quarterly basis. Pre-tax cost incurred for workers' compensation as a component of discontinued operations primarily represents a change in estimate for each period from unanticipated medical costs associated with the Company's obligations.

Reserves for environmental remediation obligations are established on an undiscounted basis. The Company has an accrual for environmental remediation obligations related to discontinued operations of \$1,728 as of December 29, 2018 and \$1,746 as of December 30, 2017. The liability established represents the Company's best estimate of possible loss and is the reasonable amount to which there is any meaningful degree of certainty given the periods of estimated remediation and the dollars applicable to such remediation for those periods. The actual timeline to remediate, and thus, the ultimate cost to complete such remediation through these remediation efforts, may differ significantly from our estimates. Pre-tax cost for environmental remediation obligations classified as discontinued operations were primarily a result of specific events requiring action and additional expense in each period.

NOTE 22 - RELATED PARTY TRANSACTIONS

The Company is a party to a 5-year lease with the seller of Atlas Carpet Mills, Inc. to lease three manufacturing facilities as part of the acquisition in 2014. The lessor is controlled by an associate of the Company. Rent paid to the lessor during 2018, 2017, and 2016 was \$1,003, \$978, and \$793, respectively. The lease was based on current market values for similar facilities.

The Company purchases a portion of its product needs in the form of fiber, yarn and carpet from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of the Company. An affiliate of Mr. Shaw holds approximately 7.2% of the Company's Common Stock, which represents approximately 3.5% of the total vote of all

classes of the Company's Common Stock. Engineered Floors is one of several suppliers of such materials to the Company. Total purchases from Engineered Floors for 2018, 2017 and 2016 were approximately \$8,200, \$7,200 and \$7,300, respectively; or approximately 2.6%, 2.3%, and 2.4% of the Company's cost of goods sold in 2018, 2017, and 2016, respectively. Purchases from Engineered Floors are based on market value, negotiated prices. The Company has no contractual commitments with Mr. Shaw associated with its business relationship with Engineered Floors. Transactions with Engineered Floors are reviewed annually by the Company's board of directors.

The Company is a party to a 10-year lease with the Rothman Family Partnership to lease a manufacturing facility as part of the Robertex acquisition in 2013. The lessor is controlled by an associate of the Company. Rent paid to the lessor during 2018, 2017, and 2016 was \$278, \$273, and \$267, respectively. The lease was based on current market values for similar facilities. In addition, the Company has a note payable to Robert P. Rothman related to the acquisition of Robertex Inc. (See Note 10).

NOTE 23 - SUBSEQUENT EVENT

On January 14, 2019, the Company, entered into a purchase and sale agreement (the "Purchase and Sale Agreement") with Saraland Industrial, LLC, an Alabama limited liability company (the "Purchaser"). Pursuant to the terms of the Purchase and Sale Agreement, the Company sold its Saraland facility, and approximately 17.12 acres of surrounding property located in Saraland, Alabama (the "Property") to the Purchaser for a purchase price of \$11,500. Concurrent with the sale of the Property, the Company and the

THE DIXIE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands, except per share data)

(Continued)

Purchaser entered into a twenty-year lease agreement (the "Lease Agreement"), whereby the Company will lease back the Property at an annual rental rate of \$977, subject to annual rent increases of 1.25%. Under the Lease Agreement, Dixie Group has two (2) consecutive options to extend the term of the Lease by ten years for each such option. The company concurrently executed a lease guaranty, pursuant to which it guaranteed the prompt payment when due of all rent payments to be made by its wholly owned subsidiary, TDG Operations, LLC under the Lease Agreement.

Concurrently with the sale, the Company paid off the approximately \$5,000 mortgage on the property to First Tennessee Bank National Association and terminated the related fixed interest rate swap agreement. In connection with the Purchase and Sale Agreement, the Company's lender consented to the sale of the Saraland Facility. No other material terms of the credit agreement were amended.

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Item 15(a)(2)

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

THE DIXIE GROUP, INC.

(dollars in thousands)

Description	Balance at Beginning of Year	Additions		Deductions - Describe	Balance at End of Year
		- Charged to Costs and Expenses	Charged to Other Account - Describe		
Year ended December 29, 2018:					
Reserves deducted from asset accounts:					
Allowance for doubtful accounts	\$ 133	\$ 162	\$ —	—\$ 121	(1) \$ 174
Reserves classified as liabilities:					
Provision for claims, allowances and warranties	6,360	2,098	—	2,741	(2) 5,717
Year ended December 30, 2017:					
Reserves deducted from asset accounts:					
Allowance for doubtful accounts	\$ 107	\$ 70	\$ —	—\$ 44	(1) \$ 133
Reserves classified as liabilities:					
Provision for claims, allowances and warranties (As Adjusted)*	7,039	8,341	—	9,020	(2)*6,360
Year ended December 31, 2016:					
Reserves deducted from asset accounts:					
Allowance for doubtful accounts	\$ 470	\$ 38	\$ —	—\$ 401	(1) \$ 107
Reserves classified as liabilities:					
Provision for claims, allowances and warranties (As Adjusted)*	6,658	10,407	—	10,026	(2) 7,039

* - See Note 2.

(1) Uncollectible accounts written off, net of recoveries.

(2) Reserve reductions for claims, allowances and warranties settled.

ANNUAL REPORT ON FORM 10-K
 ITEM 15(b)
 EXHIBITS

YEAR ENDED DECEMBER 29, 2018
 THE DIXIE GROUP, INC.
 DALTON, GEORGIA

Exhibit Index

EXHIBIT NO.	DESCRIPTION
(1.1)*	<u>Underwriting Agreement for 2,500,000 Shares of The Dixie Group, Inc. (Incorporated by reference to Exhibit (1.1) to Dixie's Current Report on Form 8-K dated May 20, 2014.)</u>
(2.1)*	<u>Securities Purchase Agreement between Masland Carpets, LLC and Robert P. Rothman dated as of June 30, 2013. (Incorporated by reference to Exhibit (2.1) to Dixie's Current Report on Form 8-K dated June 30, 2013.)</u>
(3.1)*	<u>Text of Restated Charter of The Dixie Group, Inc. as Amended - Blackline Version. (Incorporated by reference to Exhibit (3.4) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2003.)</u>
(3.2)*	<u>Amended By-Laws of The Dixie Group, Inc. as of February 22, 2007. (Incorporated by reference to Exhibit 3.1 to Dixie's Current Report on Form 8-K dated February 26, 2007.)</u>
(5.1)*	<u>Shelf Registration Statement on Form S-3. (Incorporated by reference to Exhibit (5.1) to Dixie's Current Report on Form 8-K dated May 20, 2014.)</u>
(10.1)*	The Dixie Group, Inc. New Non-qualified Retirement Savings Plan effective August 1, 1999. (Incorporated by reference to Exhibit (10.1) to Dixie's Quarterly Report on Form 10-Q for the quarter ended June 26, 1999.)**
(10.2)*	<u>The Dixie Group, Inc. 2006 Stock Awards Plan. (Incorporated by reference to Annex A to the Company's Proxy Statement for its 2006 Annual Meeting of Shareholders, filed March 20, 2006.)**</u>
(10.3)*	<u>Summary Description of the 2006 Incentive Compensation Plan, approved February 23, 2006. (Incorporated by reference to Current Report on Form 8-K dated March 1, 2006.)**</u>
(10.4)*	<u>Summary Description of The Dixie Group, Inc., 2006 Incentive Compensation Plan/Range of Incentives. (Incorporated by reference to Exhibit (10.62) to Dixie's Annual Report on Form 10-K for the year ended December 28, 2013.)**</u>
(10.5)*	<u>Material terms of the performance goals for the period 2007-2011, pursuant to which incentive compensation awards may be made to certain key executives of the Company based on the results achieved by the Company during such years, approved March 14, 2006. (Incorporated by reference to Current Report on Form 8-K dated March 20, 2006.)**</u>
(10.6)*	<u>Form of Award of Career Shares under the 2006 Incentive Compensation Plan for Participants holding only shares of the Company's Common Stock. (Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated June 6, 2006.)**</u>
(10.7)*	<u>Form of Award of Career Shares under the 2006 Incentive Compensation Plan for Participants holding shares of the Company's Class B Common Stock. (Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated June 6, 2006.)**</u>
(10.8)*	<u>Form of Award of Long Term Incentive Plan Shares under the 2006 Incentive Compensation Plan for Participants holding only shares of the Company's Common Stock. (Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated June 6, 2006.)**</u>
(10.9)*	<u>Form of Award of Long Term Incentive Plan Shares under the 2006 Incentive Compensation Plan for Participants holding shares of the Company's Class B Common Stock. (Incorporated by reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated June 6, 2006.)**</u>

- (10.10)* Master Lease Agreement, Corporate Guaranty and Schedule to the Master Lease Agreement by and between General Electric Capital Corporation and Masland Carpets, LLC dated August 21, 2009. (Incorporated by reference to Exhibit (10.1, 10.2, 10.3) to Dixie's Current Report on Form 8-K dated August 25, 2009.)
- (10.11)* Amended and Modified Financing Agreement, by and between The Dixie Group, Inc. and certain of its subsidiaries named therein, and General Electric Credit Corporation, as lender, dated June 26, 2012. (Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated June 26, 2012.)
- (10.12)* Agreement to Reduce Security Deposit Amount and Amendment to Security Deposit Pledge Agreement, by and between The Dixie Group, Inc. and certain of its subsidiaries named therein, and General Electric Credit Corporation, as lender, dated June 26, 2012. (Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated June 26, 2012.)
- (10.13)* Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Purchase and Sale Agreement dated December 28, 2012. (Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012.)

- (10.14)* Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Bill of Sale, dated December 28, 2012. (Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012.)
- (10.15)* Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Lease Agreement, dated December 28, 2012. (Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012.)
- (10.16)* Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Short Form Lease Agreement, dated December 28, 2012. (Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012.)
- (10.17)* Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Option Agreement, dated December 28, 2012. (Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012.)
- (10.18)* Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Pilot Agreement, dated December 28, 2012. (Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012.)
- (10.19)* Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Loan Agreement, dated December 28, 2012. (Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012.)
- (10.20)* Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Loan and Security Agreement, dated December 28, 2012. (Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012.)
- (10.21)* Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Deed to Secure Debt and Security Agreement, dated December 28, 2012. (Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012.)
- (10.22)* Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Notice and Consent to Assignment, dated December 28, 2012. (Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012.)
- (10.23)* Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Absolute Assignment of Deed to Secure Debt and Security Agreement and Other Loan Documents, dated December 28, 2012. (Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012.)
- (10.24)* Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, Series 2014 Bond, dated October 17, 2014. (Incorporated by reference to Exhibit (10.48) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.25)* Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, PILOT Agreement, dated October 1, 2014. (Incorporated by reference to Exhibit (10.49) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.26)* Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, Bond Purchase Loan Agreement, dated October 1, 2014. (Incorporated by reference to Exhibit (10.50) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.27)* Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, Option Agreement, dated October 1, 2014. (Incorporated by reference to Exhibit (10.51) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.28)* Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, Bill of Sale, dated October 1, 2014. (Incorporated by reference to Exhibit (10.52) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.29)* Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, Assignment of Rents and Leases and Security Agreement dated October 1, 2014. (Incorporated by reference

- to Exhibit (10.53) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
Project Development Agreement, by and between TDG Operations, LLC, a Georgia Limited Liability
Company doing business as Masland Carpets and the City of Atmore, Alabama, dated December 11, 2014.
(10.30)* (Incorporated by reference to Exhibit (10.54) to Dixie's Annual Report on Form 10-K for the year ended
December 27, 2014.)
Credit Agreement, by and among The Dixie Group, Inc. and certain of its subsidiaries, as Borrowers, cert of
its subsidiaries, as Guarantor, the Lenders from time to time party thereto, Wells Fargo Bank Capital Finance
(10.31)* LLC, as Administrative Agent, and co-lender and Bank of America and the Other parties thereto, dated
September 13, 2011. (Incorporated by reference to Exhibit (10.10) to Dixie's Current Report on Form 8-K
dated September 14, 2011.)
Security Agreement, by and among The Dixie Group, Inc. and certain of its subsidiaries, as Borrowers,
certain of its subsidiaries, as Guarantor, the Lenders from time to time party thereto, Wells Fargo Bank
(10.32)* Capital Finance LLC, as Administrative Agent, and co-lender and Bank of America and the Other parties
thereto, dated September 13, 2011. (Incorporated by reference to Exhibit (10.11) to Dixie's Current Report on
Form 8-K dated September 14, 2011.)
Form of Mortgages, by and among The Dixie Group, Inc. and certain of its subsidiaries, as Borrowers, certain
of its subsidiaries, as Guarantor, the Lenders from time to time party thereto, Wells Fargo Bank Capital
(10.33)* Finance LLC, as Administrative Agent, and co-lender and Bank of America and the Other parties thereto,
dated September 13, 2011. (Incorporated by reference to Exhibit (10.12) to Dixie's Current Report on Form
8-K dated September 14, 2011.)

- (10.34)* Credit Agreement, by and between The Dixie Group, Inc. and certain of its subsidiaries named therein, and Wells Fargo Bank, N.A. as lender, dated September 13, 2011. (Incorporated by reference to Exhibit (10.20) to Dixie's Current Report on Form 8-K dated September 14, 2011.)
- (10.35)* Security Agreement, by and between The Dixie Group, Inc. and certain of its subsidiaries named therein, and Wells Fargo Bank, N.A. as lender, dated September 13, 2011. (Incorporated by reference to Exhibit (10.21) to Dixie's Current Report on Form 8-K dated September 14, 2011.)
- (10.36)* First Mortgage, by and between The Dixie Group, Inc. and certain of its subsidiaries named therein, and Wells Fargo Bank, N.A. as lender, dated September 13, 2011. (Incorporated by reference to Exhibit (10.22) to Dixie's Current Report on Form 8-K dated September 14, 2011.)
- (10.37)* First Amendment to Credit Agreement dated as of November 2, 2012, by and among The Dixie Group, Inc., certain of its subsidiaries, and Wells Fargo Bank, N.A. as Agent and the persons identified as Lenders therein. (Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated November 5, 2012.)
- (10.38)* First Amendment to Credit Agreement dated as of November 2, 2012, by and among The Dixie Group, Inc., certain of its subsidiaries, and Wells Fargo Capital Finance, LLC as Agent and the persons identified as Lenders therein. (Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated November 5, 2012.)
- (10.39)* Intercreditor Agreement dated as of November 2, 2012, by and among Wells Fargo Capital Finance, LLC and Wells Fargo Bank, N.A. as Agents and The Dixie Group, Inc. and certain of its subsidiaries. (Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated November 5, 2012.)
- (10.40)* Second Amendment to Credit Agreement dated as of April 1, 2013, by and among The Dixie Group, Inc., certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein. (Incorporated by reference to Exhibit (10.01) to Dixie's Current Report on Form 8-K dated April 3, 2013.)
- (10.41)* Third Amendment to Credit Agreement dated as of May 22, 2013, by and among The Dixie Group, Inc., certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein. (Incorporated by reference to Exhibit (10.57) to Dixie's Annual Report on Form 10-K for the year ended December 28, 2013.)
- (10.42)* Fourth Amendment to Credit Agreement dated as of July 1, 2013, by and among The Dixie Group, Inc., certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein. (Incorporated by reference to Exhibit (10.58) to Dixie's Annual Report on Form 10-K for the year ended December 28, 2013.)
- (10.43)* Fifth Amendment to Credit Agreement dated as of July 30, 2013, by and among The Dixie Group, Inc., certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein. (Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 10-Q dated August 7, 2013.)
- (10.44)* Sixth Amendment to Credit Agreement dated as of August 30, 2013, by and among The Dixie Group, Inc., certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein. (Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 10-Q dated November 6, 2013.)
- (10.45)* Seventh Amendment to Credit Agreement dated as of January 20, 2014, by and among The Dixie Group, Inc., certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein. (Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated January 21, 2014.)
- (10.46)* Eighth Amendment to Credit Agreement dated as of March 14, 2014, by and among The Dixie Group, Inc., certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein. (Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 20, 2014.)

- (10.47)* Term Note 1 dated November 7, 2014, by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association. (Incorporated by reference to Exhibit (10.71) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.48)* Deed to Secure Debt, Assignment of Rents and Leases, Security Agreement and Fixture Filing by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association, dated November 7, 2014. (Incorporated by reference to Exhibit (10.72) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.49)* Term Note 2 dated November 7, 2014, by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association. (Incorporated by reference to Exhibit (10.73) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.50)* Amendment to Term Loan Agreement, Note 2, dated November 7, 2014, by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association. (Incorporated by reference to Exhibit (10.74) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.51)* Term Note 3 dated January 23, 2015, by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association. (Incorporated by reference to Exhibit (10.75) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.52)* Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Filing by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association, dated January 23, 2015. (Incorporated by reference to Exhibit (10.76) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)

- (10.53)* Mortgagee's Subordination and Consent, dated January 23, 2015, by and between Wells Fargo Capital Finance, LLC, as Agent, and The Dixie Group, Inc. and its subsidiaries, as Borrower, and First Tennessee Bank National Association, as Mortgagee. (Incorporated by reference to Exhibit (10.77) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.54)* Amended and Restated Mortgagee's Subordination and Consent, dated January 23, 2015, by and between Wells Fargo Capital Finance, LLC, as Agent, and The Dixie Group, Inc. and its subsidiaries, as Borrower, and First Tennessee Bank National Association, as Mortgagee. (Incorporated by reference to Exhibit (10.78) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.55)* Amendment to Deed to Secure Debt, Assignment of Rents and Leases, Security Agreement and Fixture Filing, dated January 23, 2015, between TDG Operations, LLC, a Georgia limited liability company, and First Tennessee Bank National Association. (Incorporated by reference to Exhibit (10.79) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014.)
- (10.56)* Stock Purchase Agreement between TDG Operations, LLC, a wholly owned subsidiary of The Dixie Group, Inc. and James Horwich, Trustee under the Horwich Trust of 1973, to purchase all outstanding capital stock of Atlas Carpet Mills, Inc. (Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 20, 2014.)
- (10.57)* Summary of Annual Incentive Compensation Plan Applicable to 2015. (Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
- (10.58)* Form of LTIP award (B shareholder). (Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
- (10.59)* Form of LTIP award (common only). (Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
- (10.60)* Form of Career Share award (B shareholder). (Incorporated by reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
- (10.61)* Form of Career Share award (common only). (Incorporated by reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
- (10.62)* Form of Retention Grant (Service Condition only). (Incorporated by reference to Exhibit (10.6) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
- (10.63)* Form of Retention Grant (Performance Condition and Service Condition). (Incorporated by reference to Exhibit (10.7) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
- (10.64)* Form of Award of 100,000 share of Restricted Stock under the 2006 Stock Awards Plan to Daniel K. Frierson. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated April 30, 2015.)**
- (10.65)* Thornton Edge LLC Lease for Reed Road Facility. (Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 10-Q dated November 4, 2015.)
- (10.66)* Thornton Edge LLC First Lease Amendment for Reed Road Facility. (Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 10-Q dated November 4, 2015.)
- (10.67)* Thornton Edge LLC Second Lease Amendment for Reed Road Facility. (Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 10-Q dated November 4, 2015.)
- (10.68)* 2016 Incentive Compensation Plan. (Incorporate by reference to Appendix A to Dixie's Proxy Statement for the Registrant's Annual Meeting of Shareholders held May 3, 2016.)**
- (10.69)* Summary of Incentive Plan for 2016. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 11, 2016.)**
- (10.70)* Long Term Incentive Plan Award B Shareholder. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 11, 2016.)**
- (10.71)*

- Long Term Incentive Plan Award Common. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 11, 2016.)**
- (10.72)* Career Shares B Shareholder. (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 11, 2016.)**
- (10.73)* Career Shares Common. (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 11, 2016.)**
- (10.74)* Tenth Amendment to Credit Agreement, First Amendment to Security Agreement, and First Amendment to Guaranty. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated September 26, 2016.)
- (10.75)* Summary of Incentive Plan for 2017. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 10, 2017.)**
- (10.76)* Form of Stock Option Agreement - Common Stock - 2016 Stock Plan. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated May 31, 2017.)**
- (10.77)* Form of Stock Option Agreement - Class B Holder - 2016 Stock Plan. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated May 31, 2017.)**
- (10.78) Royalty Carpet Mills Lease for Porterville, California Facility. (Incorporated by Reference to Exhibit (10.78) to Dixie's Current Report on Form 10-K dated March 13, 2018.)

- (10.79) Summary of Incentive Plan for 2018. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 9, 2018.)**
- (10.80) Long Term Incentive Plan Award B Shareholder. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 9, 2018.)**
- (10.81) Long Term Incentive Plan Award Common. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 9, 2018.)**
- (10.82) Career Shares B Shareholder. (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 9, 2018.)**
- (10.83) Career Shares Common. (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 9, 2018.)**
- (10.84) Eleventh Consent and Amendment to Credit Agreement. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated January 17, 2019.)
- (10.85) Agreement For the Purchase and Sale of Real Property between Saraland Industrial, LLC and TDG Operations, LLC. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated January 17, 2019.)
- (14)* Code of Ethics, as amended and restated, February 15, 2010. (Incorporated by reference to Exhibit 14 to Dixie's Annual Report on Form 10-K for year ended December 26, 2009.)
- (16)* Letter from Ernst & Young LLP regarding change in certifying accountant. (Incorporated by reference to Exhibit 16 to Dixie's Form 8-K dated November 15, 2013.)
- (21) Subsidiaries of the Registrant. (Filed herewith.)
- (23) Consent of Dixon Hughes Goodman LLP Independent Registered Public Accounting Firm.(Filed herewith.)
- (31.1) CEO Certification pursuant to Securities Exchange Act Rule 13a-14(a). (Filed herewith.)
- (31.2) CFO Certification pursuant to Securities Exchange Act Rule 13a-14(a). (Filed herewith.)
- (32.1) CEO Certification pursuant to Securities Exchange Act Rule 13a-14(b). (Filed herewith.)
- (32.2) CFO Certification pursuant to Securities Exchange Act Rule 13a-14(b). (Filed herewith.)
- (101.INS) XBRL Instance Document. (Filed herewith.)
- (101.SCH) XBRL Taxonomy Extension Schema Document. (Filed herewith.)
- (101.CAL)XBRL Taxaonomy Extension Calculation Linkbase Document. (Filed herewith.)
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase Document. (Filed herewith.)
- (101.LAB)XBRL Taxonomy Extension Label Linkbase Document. (Filed herewith.)
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document. (Filed herewith.)

* Commission File No. 0-2585.

** Indicates a management contract or compensatory plan or arrangement.